

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2013

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 001-35679

MADISON COUNTY FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
Company or organization)

46-0658311
(I.R.S. Employer
Identification Number)

111 West Third Street, Madison, Nebraska
(Address of Principal Executive Offices)

68748
Zip Code

(402) 454-6511
(Registrant's telephone number)

N/A
(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer
Non-accelerated filer
(Do not check if smaller reporting company)

Accelerated filer
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

As of May 15, 2013, 3,193,054 shares of the Registrant's common stock, par value \$0.01 per share, were issued and outstanding.

Madison County Financial, Inc.
Form 10-Q

Index

	<u>Page</u>
Part I. Financial Information	
Item 1.	Condensed Consolidated Financial Statements
	Condensed Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012
	1
	Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2013 and 2012 (unaudited)
	2
	Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2013 and 2012 (unaudited)
	3
	Condensed Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2013 and 2012 (unaudited)
	4
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012 (unaudited)
	5
	Notes to Condensed Consolidated Financial Statements (unaudited)
	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	29
Item 3.	Quantitative and Qualitative Disclosures about Market Risk
	35
Item 4.	Controls and Procedures
	35

Madison County Financial, Inc.
Form 10-Q

Part II. Other Information

Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3.	Defaults upon Senior Securities	36
Item 4.	Mine Safety Disclosures	36
Item 5.	Other Information	36
Item 6.	Exhibits	36
	Signature Page	37

Part I. – Financial Information

Item 1. Financial Statements

Madison County Financial, Inc.
Condensed Consolidated Balance Sheets
(Dollars in Thousands, except share and per share data)

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
	<u>(Unaudited)</u>	
Assets		
Cash and due from banks	\$ 3,412	\$ 5,647
Interest-earning demand accounts	40,416	2,271
Cash and cash equivalents	<u>43,828</u>	<u>7,918</u>
Certificates of deposit	1,500	1,500
Investment securities:		
Available for sale, at fair value	9,887	8,982
Held to maturity, at amortized cost (fair value of \$28,276 and \$25,630, respectively)	27,918	25,026
Loans held for sale	389	159
Loans receivable, net of allowance for losses of \$5,196 and \$4,941, respectively	192,194	207,157
Stock in Federal Home Loan Bank ("FHLB") of Topeka	2,087	2,076
Premises and equipment, net	2,259	2,274
Bank-owned life insurance ("BOLI")	4,636	4,598
Accrued interest receivable	2,515	3,845
Core deposit intangible	771	810
Goodwill	481	481
Other assets	<u>2,427</u>	<u>2,431</u>
 Total assets	 <u>\$ 290,892</u>	 <u>\$ 267,257</u>
 Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$ 216,255	\$ 195,187
Borrowings	6,300	6,300
Accrued interest payable	104	106
Other liabilities	5,401	3,600
Total liabilities	<u>228,060</u>	<u>205,193</u>
 Commitments and contingencies		
Stockholders' Equity		
Common stock, \$.01 par value per share:		
Issued and outstanding - 3,193,054 and 3,193,054 respectively	32	32
Additional paid in capital	30,709	30,693
Unearned employee stock ownership plan (ESOP)	(2,427)	(2,452)
Retained earnings	34,282	33,530
Accumulated other comprehensive income	236	261
Total stockholders' equity	<u>62,832</u>	<u>62,064</u>
 Total liabilities and stockholders' equity	 <u>\$ 290,892</u>	 <u>\$ 267,257</u>

See notes to condensed consolidated financial statements

Madison County Financial, Inc.
Condensed Consolidated Statements of Income
(Dollars in Thousands, except share and per share data)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
Interest and Dividend Income		
Loans receivable, including fees	\$ 2,578	\$ 2,871
Investment securities - taxable	83	84
Investment securities - non-taxable	197	138
Other	21	11
Total interest income	2,879	3,104
Interest Expense		
Deposits	383	401
Borrowings	54	57
Total interest expense	437	458
Net interest income	2,442	2,646
Provision for loan losses	255	110
Net Interest Income After Provision for Loan Losses	2,187	2,536
Other Income		
Service charges on deposit accounts	48	46
ATM and credit card fees	31	32
Loan servicing income, net	49	34
Gain on sale of loans	167	176
Increase in surrender value of life insurance	38	38
Insurance commission income	89	94
Other income	36	45
Total other income	458	465
Other Expense		
Salaries and employee benefits	950	872
Director fees and benefits	20	21
Net occupancy	117	123
Data processing fees	61	44
Professional fees	135	15
Advertising	27	20
Supplies	31	31
FDIC insurance premiums	31	29
Core deposit intangible amortization	39	45
Other expense	196	186
Total other expense	1,607	1,386
Income Before Income Tax Expense	1,038	1,615
Income tax expense	286	486
Net Income	\$ 752	\$ 1,129
Earnings Per Share:		
Basic	\$ 0.26	N/A
Diluted	0.26	N/A

See notes to condensed consolidated financial statements.

Madison County Financial, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Dollars in Thousands)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
Net Income	\$ 752	\$ 1,129
Other Comprehensive Loss		
Unrealized losses on available-for-sale securities, net of taxes of \$(13) (unaudited) and \$(5) (unaudited) for the three months ended March 31, 2013 and 2012, respectively	(25)	(9)
	(25)	(9)
Comprehensive Income	\$ 727	\$ 1,120
	\$ 727	\$ 1,120

See notes to condensed consolidated financial statements.

Madison County Financial, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Dollars in Thousands, except share and per share data)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Unearned ESOP Shares (Unaudited)</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
	<u>Shares Outstanding</u>	<u>Amount</u>					
Balance, January 1, 2013	3,193,054	\$ 32	\$ 30,693	\$ (2,452)	\$ 33,530	\$ 261	\$ 62,064
Net income					752		752
Other comprehensive loss						(25)	(25)
ESOP shares earned			16	25			41
Balance, March 31, 2013	<u>3,193,054</u>	<u>\$ 32</u>	<u>\$ 30,709</u>	<u>\$ (2,427)</u>	<u>\$ 34,282</u>	<u>\$ 236</u>	<u>\$ 62,832</u>
Balance, January 1, 2012	-	\$ -	\$ -	\$ -	\$ 29,900	\$ 231	\$ 30,131
Net income					1,129		1,129
Other comprehensive loss						(9)	(9)
Balance, March 31, 2012	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,029</u>	<u>\$ 222</u>	<u>\$ 31,251</u>

See notes to condensed consolidated financial statements.

Madison County Financial, Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Three Months Ended March 31,	
	2013	2012
	(Unaudited)	
Operating activities:		
Net income	\$ 752	\$ 1,129
Items not requiring cash:		
Provision for loan losses	255	110
Depreciation and amortization	55	62
Investment securities amortization, net	5	6
Core deposit intangible amortization	39	45
Loans originated for sale in the secondary market	(9,366)	(7,202)
Proceeds from loan sales in the secondary market	9,303	7,417
Gain on loans sold	(167)	(176)
Increase in surrender value of life insurance	(38)	(38)
Net change in:		
Accrued interest receivable	1,330	1,867
Accrued interest payable	(2)	(24)
Other adjustments	750	701
Net cash provided by operating activities	2,916	3,897
Investing activities:		
Purchases of investment securities available for sale	(1,298)	(2,301)
Proceeds from maturities of investment securities available for sale	350	1,000
Purchases of investment securities held to maturity	(2,367)	(2,030)
Proceeds from maturities of investment securities held to maturity	622	50
Net change in loans receivable	14,659	16,199
Purchases of premises and equipment	(40)	-
Other investing activities	-	112
Net cash provided by investing activities	11,926	13,030
Financing activities:		
Net change in checking and money market savings accounts	22,118	14,288
Net change in certificates of deposit	(1,050)	(1,924)
Net change in short-term borrowings	-	(20,100)
Repayment of FHLB advances	-	(200)
Net cash provided by (used in) financing activities	21,068	(7,936)
Net Change in Cash and Cash Equivalents	35,910	8,991
Cash and Cash Equivalents, Beginning of Period	7,918	6,457
Cash and Cash Equivalents, End of Period	\$ 43,828	\$ 15,448
Additional Cash Flows Information:		
Interest paid	\$ 439	\$ 482
Taxes paid	-	-

See notes to condensed consolidated financial statements.

Madison County Financial, Inc.
Form 10-Q

(Dollars in thousands, except share and per share data)

Notes to Condensed Consolidated Financial Statements

Madison County Bank (the "Bank"), a wholly owned subsidiary of Madison County Financial, Inc., (the "Company") is engaged in providing a full range of banking and financial services to individual and corporate customers in the areas surrounding Madison, Nebraska. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of the Comptroller of the Currency ("OCC") and undergoes periodic examinations by such authority.

On October 3, 2012, Madison County Holding Company, MHC, (the "MHC"), the Bank's former mutual holding company, consummated its mutual to stock conversion ("Conversion") and the related initial public stock offering of Madison County Financial, Inc. which, upon consummation of the Conversion, became the savings and loan holding company of the Bank. As part of the Conversion and offering, the Company issued and sold shares of its capital stock to eligible depositors of the Bank and the public pursuant to an independent valuation appraisal of the Bank and the Company on a converted basis that was conducted by an independent appraisal firm.

In the Offering, the Company sold 3,193,054 shares of its common stock, par value \$0.01 per share, at \$10.00 per share in a subscription offering and community offering, including 255,444 shares, equal to 8.0% of the shares sold in the offering, to the Madison County Bank employee stock ownership plan.

The cost of the conversion and the stock offering were deferred and deducted from the proceeds of the offering. Conversion costs incurred were \$1,254.

In accordance with applicable federal conversion regulations, at the time of the completion of the mutual-to-stock conversion, we established a liquidation account in an amount equal to the Bank's total equity as of the latest balance sheet date in the final prospectus used in the Conversion. Each eligible account holder or supplemental account holder is entitled to a proportionate share of this liquidation account in the event of a complete liquidation of the Bank, and only in such event. This share will be reduced if the eligible account holder's or supplemental account holder's deposit balance falls below the amounts on the date of record as of any December 31 and will cease to exist if the account is closed. The liquidation account will never be increased despite any increase after Conversion in the related deposit balance.

The Company may not declare, pay a dividend on, or repurchase any of its capital stock of the Bank, if the effect thereof would cause retained earnings to be reduced below the liquidation account amount or regulatory capital requirements.

The Conversion was accounted for as a change in corporate form with the historic basis of the MHC's consolidated assets, liabilities and equity unchanged as a result.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Note 1: Basis of Presentation

The accompanying condensed consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in the Madison County Financial, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on March 28, 2013. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the financial statements have been included. The results of operations for the three-month period ended March 31, 2013, are not necessarily indicative of the results which may be expected for the year ending December 31, 2013.

Note 2: Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 3: Earnings Per Share

		Three months ended March 31, 2013
(Unaudited, Dollars in Thousands except share and per share data)		
Net income	\$	752
Shares outstanding for basic EPS:		
Average shares outstanding		3,193
Less: Average Unearned ESOP Shares		244
Shares outstanding for basic EPS		2,949
Additional dilutive shares		-
Share outstanding for diluted EPS		2,949
Basic earnings per share	\$	0.26
Diluted earnings per share	\$	0.26

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Note 4: Investment Securities

The amortized cost and approximate fair values of investment securities are as follows:

March 31, 2013			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
(Unaudited, In Thousands)			
Available for sale:			
U.S. Treasuries	\$ 500	\$ -	\$ 500
Federal agencies	9,029	380	9,387
Total available for sale	9,529	380	9,887
Held to maturity:			
Federal agencies	499	5	504
State and municipal	27,419	455	27,772
Total held to maturity	27,918	460	28,276
Total investment securities	\$ 37,447	\$ 840	\$ (124) \$ 38,163
December 31, 2012			
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
(In Thousands)			
Available for sale:			
U.S. Treasuries	\$ 500	\$ -	\$ 500
Federal agencies	8,086	408	8,482
Total available for sale	8,586	408	8,982
Held to maturity:			
Federal agencies	498	10	508
State and municipal	24,528	600	25,122
Total held to maturity	25,026	610	25,630
Total investment securities	\$ 33,612	\$ 1,018	\$ (18) \$ 34,612

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

The amortized cost and fair value of investment securities at March 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2013			
	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
(Unaudited, In Thousands)				
Within one year	\$ 1,000	\$ 1,002	\$ 2,249	\$ 2,255
After one through five years	1,975	2,153	3,964	4,009
After five through ten years	3,952	4,136	3,241	3,305
After ten years	2,602	2,596	18,464	18,707
	\$ 9,529	\$ 9,887	\$ 27,918	\$ 28,276

The carrying value of investment securities pledged as collateral, to secure public deposits and for other purposes was \$5,640 at March 31, 2013 (unaudited) and \$5,673 at December 31, 2012.

There were no sales of investment securities available for sale for the three months ended March 31, 2013 and 2012 (unaudited).

Certain investments in debt securities have fair values at an amount less than their historical cost. Total fair value of these investments at March 31, 2013 (unaudited) and December 31, 2012 was \$9,040 and \$3,163, which is approximately 24% and 9%, respectively, of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these investment securities are temporary.

Should the impairment of any of these investment securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

Investment securities with unrealized losses at March 31, 2013 were as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(Unaudited, In Thousands)						
Available for sale-						
Federal agencies	\$ 3,052	\$ (10)	\$ 255	\$ (12)	\$ 3,307	\$ (22)
Held to maturity-						
State and municipal	5,047	(93)	686	(9)	5,733	(102)
	<u>\$ 8,099</u>	<u>\$ (103)</u>	<u>\$ 941</u>	<u>\$ (21)</u>	<u>\$ 9,040</u>	<u>\$ (124)</u>

Investment securities with unrealized losses at December 31, 2012 were as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In Thousands)						
Available for sale-						
Federal agencies	\$ 1,807	\$ (3)	\$ 259	\$ (9)	\$ 2,066	\$ (12)
Held to maturity-						
State and municipal	1,047	(5)	50	(1)	1,097	(6)
	<u>\$ 2,854</u>	<u>\$ (8)</u>	<u>\$ 309</u>	<u>\$ (10)</u>	<u>\$ 3,163</u>	<u>\$ (18)</u>

Note 5: Loans and Allowance

The Company's loan and allowance policies are as follows:

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Premiums and discounts are amortized as a level yield adjustment over the respective term of the loan.

For loans not secured by real estate or loans secured by real estate with loan-to-value ratios of 80% or more, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. For loans secured by real estate with a loan-to-value ratio of less than 80%, the accrual of interest is discontinued after the loan is 120 days past due. Past due status is based on contractual terms of the loan. For all loan classes, the entire

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

For all loan portfolio segments, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

For all classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status. There were no changes in the Company's nonaccrual policy during the three month-end periods ended March 31, 2013 and 2012 (unaudited).

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general and allocated components. The general component covers non-impaired loans and is based on the product of the historical loss experience rate, adjusted by certain qualitative factors in basis points, and the portfolio balance for each loan segment. The historical loss experience rate is determined for each loan portfolio segment and is based on the actual loss history experienced by the Company over the prior three years. Management believes

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

the three year historical loss experience methodology is appropriate in the current economic environment. The qualitative factors considered include changes in experience of lending staff, lending policies and procedures; changes in loan review and oversight, changes in collection, charge-off and recovery practices; changes in the nature and volume of the loan portfolio; changes in the volume and severity of nonperforming loans; the existence and effect of any concentrations of credit and changes in the level of such concentrations; changes in the underlying collateral and changes in current, national and local economic and business conditions.

The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for non-homogenous type loans such as commercial, nonowner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as bad debt expense.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial non-real estate, commercial real estate and multi-family real estate loans. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company generally does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Categories of loans receivable include:

	March 31, 2013	December 31, 2012
	(Unaudited)	
Real estate:		
Agricultural	\$ 95,523	\$ 96,569
Commercial and multi-family	21,293	21,205
One- to four-family residential	34,759	35,964
Agricultural and commercial non-real estate	41,493	53,611
Consumer	4,322	4,749
	197,390	212,098
Less		
Allowance for losses	5,196	4,941
	Total loans	Total loans
	\$ 192,194	\$ 207,157

The risk characteristics of each loan portfolio segment are as follows:

Agricultural Real Estate

Agricultural real estate loans are primarily comprised of loans for the purchase of farmland. Loan-to-value ratios on loans secured by farmland generally do not exceed 70% and have amortization periods limited to twenty one years.

Agricultural and Commercial Non-Real Estate

Agricultural non-real estate loans are generally comprised of seasonal operating lines to cash grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry-developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary.

Commercial non-real estate loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial non-real estate loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

Commercial and Multi-Family Real Estate

Commercial and multi-family real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

Commercial and multi-family real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial and multi-family real estate portfolio are diverse, but virtually all of these loans are secured by properties in Nebraska. Management monitors and evaluates commercial real estate and multi-family real estate loans based on collateral, geography and risk grade criteria. In addition, the Company generally will not finance single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Residential Real Estate and Consumer

Residential real estate and consumer loans consist of two segments - residential mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio of 80% of the sales price or appraised value, whichever is lower, and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

The following presents by portfolio segment, the activity in the allowance for loan losses for the three months ended March 31, 2013 and the recorded investment in loans and impairment method as of March 31, 2013:

	Real Estate			Agricultural and Commercial	Consumer	Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential			
Three Months Ended March 31, 2013 (Unaudited)						
Allowance for Loan Losses:						
Balance, beginning of period	\$ 2,585	\$ 456	\$ 467	\$ 1,337	\$ 96	\$ 4,941
Provision for loan losses	360	41	63	(196)	(13)	255
Loans charged to the allowance	-	-	-	-	-	-
Recoveries of loans previously charged off	-	-	-	-	-	-
Balance, end of period	<u>\$ 2,945</u>	<u>\$ 497</u>	<u>\$ 530</u>	<u>\$ 1,141</u>	<u>\$ 83</u>	<u>\$ 5,196</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6</u>
Ending balance: collectively evaluated for impairment	<u>\$ 2,945</u>	<u>\$ 497</u>	<u>\$ 524</u>	<u>\$ 1,141</u>	<u>\$ 83</u>	<u>\$ 5,190</u>
At March 31, 2013 (Unaudited):						
Loans:						
Ending balance	<u>\$ 95,523</u>	<u>\$ 21,293</u>	<u>\$ 34,759</u>	<u>\$ 41,493</u>	<u>\$ 4,322</u>	<u>\$ 197,390</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24</u>
Ending balance collectively evaluated for impairment	<u>\$ 95,523</u>	<u>\$ 21,293</u>	<u>\$ 34,735</u>	<u>\$ 41,493</u>	<u>\$ 4,322</u>	<u>\$ 197,366</u>

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

The following presents by portfolio segment, the activity in the allowance for loan losses for the three months ended March 31, 2012 and the recorded investment in loans and impairment method as of March 31, 2012:

	Real Estate			Agricultural and Commercial	Consumer	Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential			
(Unaudited, In Thousands)						
Three Months Ended March 31, 2012 (Unaudited)						
Allowance for Loan Losses:						
Balance, beginning of period	\$ 1,579	\$ 556	\$ 818	\$ 984	\$ 80	\$ 4,017
Provision for loan losses	248	(22)	(139)	25	(2)	110
Loans charged to the allowance	-	-	-	-	-	-
Recoveries of loans previously charged off	71	-	23	-	-	94
Balance, end of period	<u>\$ 1,898</u>	<u>\$ 534</u>	<u>\$ 702</u>	<u>\$ 1,009</u>	<u>\$ 78</u>	<u>\$ 4,221</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30</u>
Ending balance: collectively evaluated for impairment	<u>\$ 1,898</u>	<u>\$ 534</u>	<u>\$ 672</u>	<u>\$ 1,009</u>	<u>\$ 78</u>	<u>\$ 4,191</u>
At March 31, 2012 (Unaudited):						
Loans:						
Ending balance	<u>\$ 76,545</u>	<u>\$ 20,296</u>	<u>\$ 36,302</u>	<u>\$ 39,212</u>	<u>\$ 4,510</u>	<u>\$ 176,865</u>
Ending balance individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50</u>
Ending balance collectively evaluated for impairment	<u>\$ 76,545</u>	<u>\$ 20,296</u>	<u>\$ 36,252</u>	<u>\$ 39,212</u>	<u>\$ 4,510</u>	<u>\$ 176,815</u>

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of March 31, 2013:

	Real Estate					Total
	Agricultural	Commercial and Multi-Family	One-to Four-Family Residential	Agricultural and Commercial	Consumer	
	(Unaudited, In Thousands)					
Pass	\$ 95,398	\$ 21,293	\$ 34,165	\$ 41,493	\$ 4,322	\$ 196,671
Special Mention	-	-	417	-	-	417
Substandard	125	-	177	-	-	302
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	\$ 95,523	\$ 21,293	\$ 34,759	\$ 41,493	\$ 4,322	\$ 197,390

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2012:

	Real Estate					Total
	Agricultural	Commercial and Multi-Family	One-to Four-Family Residential	Agricultural and Commercial	Consumer	
	(In Thousands)					
Pass	\$ 96,444	\$ 21,205	\$ 35,290	\$ 53,546	\$ 4,747	\$ 211,232
Special Mention	-	-	557	65	-	622
Substandard	125	-	117	-	2	244
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	\$ 96,569	\$ 21,205	\$ 35,964	\$ 53,611	\$ 4,749	\$ 212,098

The Company generally categorizes all classes of loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Generally, smaller dollar consumer loans are excluded from this grading process and are reflected in the Pass category. The delinquency trends of these consumer loans are monitored on a homogeneous basis and the related delinquent amounts are reflected in the aging analysis table below. The Company uses the following definitions for risk ratings:

The Pass asset quality rating encompasses assets that have generally performed as expected. With the exception of some smaller consumer and residential loans, these assets generally do not have delinquency. Loans assigned this rating include loans to borrowers possessing solid credit quality with acceptable risk. Borrowers in these grades are differentiated from higher grades on the basis of size (capital and/or revenue), leverage, asset quality, stability of the industry or specific market area and quality/coverage of collateral. These borrowers generally have a history of consistent earnings and reasonable leverage.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

The Special Mention asset quality rating encompasses assets that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. This grade is intended to include loans to borrowers whose credit quality has clearly deteriorated and where risk of further decline is possible unless active measures are taken to correct the situation. Weaknesses are considered potential at this state and are not yet fully defined.

The Substandard asset quality rating encompasses assets that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any; assets having a well-defined weakness based upon objective evidence; assets characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected; or the possibility that liquidation will not be timely. Loans categorized in this grade possess a well-defined credit weakness and the likelihood of repayment from the primary source is uncertain. Significant financial deterioration has occurred and very close attention is warranted to ensure the full repayment without loss. Collateral coverage may be marginal and the accrual of interest has been suspended.

The Doubtful asset quality rating encompasses assets that have all of the weaknesses of those classified as Substandard. In addition, these weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The Loss asset quality rating encompasses assets that are considered uncollectible and of such little value that their continuance as assets of the bank is not warranted. A loss classification does not mean that an asset has no recovery or salvage value; instead, it means that it is not practical or desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be realized in the future.

The following tables present the Company's loan portfolio aging analysis and nonperforming loans as of March 31, 2013:

	Real Estate					Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential	Agricultural and Commercial	Consumer	
	(Unaudited, In Thousands)					
Past Due:						
30-59 days	\$ 608	\$ -	\$ 351	\$ 18	\$ -	\$ 977
60-89 days	-	-	-	-	-	-
90 days or more	-	-	134	-	-	134
Total past due	<u>608</u>	<u>-</u>	<u>485</u>	<u>18</u>	<u>-</u>	<u>1,111</u>
Current	<u>94,915</u>	<u>21,293</u>	<u>34,274</u>	<u>41,475</u>	<u>4,322</u>	<u>196,279</u>
Total loans	<u>\$ 95,523</u>	<u>\$ 21,293</u>	<u>\$ 34,759</u>	<u>\$ 41,493</u>	<u>\$ 4,322</u>	<u>\$ 197,390</u>
Nonaccrual loans	\$ 125	\$ -	\$ 153	\$ -	\$ -	\$ 278
Loans past due 90 days and still accruing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 125</u>	<u>\$ -</u>	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278</u>

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

The following tables present the Company's loan portfolio aging analysis and nonperforming loans as of December 31, 2012:

	Real Estate			Agricultural and Commercial	Consumer	Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential			
	(In Thousands)					
Past Due:						
30-59 days	\$ 161	\$ 162	\$ 282	\$ 30	\$ 2	\$ 637
60-89 days	-	-	233	-	-	233
90 days or more	-	-	144	-	2	146
Total past due	161	162	659	30	4	1,016
Current	96,408	21,043	35,305	53,581	4,745	211,082
Total loans	\$ 96,569	\$ 21,205	\$ 35,964	\$ 53,611	\$ 4,749	\$ 212,098
Nonaccrual loans	\$ 126	\$ -	\$ 84	\$ -	\$ 4	\$ 214
Loans past due 90 days and still accruing	-	-	79	-	-	79
	\$ 126	\$ -	\$ 163	\$ -	\$ 4	\$ 293

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table presents impaired loans and specific valuation allowance based on class level at March 31, 2013:

	Real Estate			Agricultural and Commercial	Consumer	Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential			
	(Unaudited, In Thousands)					
Impaired loans with an allowance for loan losses	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ 24
Impaired loans with no allowance for loan losses	-	-	-	-	-	-
Total impaired loans	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ 24
Unpaid principal balance of impaired loans	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ 24
Allowance for loan losses on impaired loans	-	-	6	-	-	6

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

The following table presents average impaired loans based on class level for the three months ended March 31, 2013 and 2012:

	Real Estate			Agricultural and Commercial	Consumer	Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential			
	(Unaudited, In Thousands)					
Average recorded investment in impaired loans for the three months ended March 31, 2013	\$ -	\$ -	\$ 53	\$ -	\$ -	\$ 53
Average recorded investment in impaired loans for the three months ended March 31, 2012	-	-	52	-	-	52

The following table presents impaired loans and specific valuation allowance based on class level at December 31, 2012:

	Real Estate			Agricultural and Commercial	Consumer	Total
	Agricultural	Commercial and Multi-Family	One- to Four-Family Residential			
	(In Thousands)					
Impaired loans with an allowance for loan losses	\$ -	\$ -	\$ 82	\$ -	\$ -	\$ 82
Impaired loans with no allowance for loan losses	-	-	-	-	-	-
Total impaired loans	\$ -	\$ -	\$ 82	\$ -	\$ -	\$ 82
Unpaid principal balance of impaired loans	\$ -	\$ -	\$ 82	\$ -	\$ -	\$ 82
Allowance for loan losses on impaired loans	-	-	45	-	-	45
Average recorded investment in impaired loans	-	-	49	-	-	49

Interest income of \$1 and \$3 was recognized on impaired loans for the three months ended March 31, 2013 (unaudited) and for the three months ended March 31, 2012 (unaudited), respectively.

During the three months ended March 31, 2013 and 2012 (unaudited), there were no new restructurings classified as troubled debt restructurings. At March 31, 2013 and 2012 (unaudited), there were no such loans restructured within the last twelve months that were in default.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Note 6: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard 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
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- 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.

Recurring Measurements

The following is a description of the valuation methodologies and inputs used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the security's terms and conditions. Additionally, matrix pricing is used for certain investment securities and is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Level 1 securities include U. S. Treasuries. Level 2 securities include federal agencies. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

The following tables present the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2013 and December 31, 2012:

March 31, 2013				
Fair Value Measurements Using				
<u>Assets</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(Unaudited, In Thousands)				
Available for sale:				
U.S. Treasuries	\$ 500	\$ 500	\$ -	\$ -
Federal agencies	9,387	-	9,387	-
	<u>\$ 9,887</u>	<u>\$ 500</u>	<u>\$ 9,387</u>	<u>\$ -</u>

December 31, 2012				
Fair Value Measurements Using				
<u>Assets</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
(In Thousands)				
Available for sale:				
U.S. Treasuries	\$ 500	\$ 500	\$ -	\$ -
Federal agencies	8,482	-	8,482	-
	<u>\$ 8,982</u>	<u>\$ 500</u>	<u>\$ 8,482</u>	<u>\$ -</u>

The following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms, are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires a current independent appraisal of the collateral and applying a discount factor to the value. After determining the

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following tables present the fair value measurements of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

Assets	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)				
March 31, 2013 (Unaudited)				
Impaired loans	\$ 18	\$ -	\$ -	\$ 18
December 31, 2012				
Impaired loans	\$ 37	\$ -	\$ -	\$ 37

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

	Fair Value (In Thousands)	Valuation Technique	Unobservable Inputs	Weighted Average
At March 31, 2013: (Unaudited)				
Collateral-dependent impaired loans	\$ 18	Market comparable properties	Marketability discount	10%
At December 31, 2012:				
Collateral-dependent impaired loans	\$ 37	Market comparable properties	Marketability discount	10%

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Certificates of Deposit, Federal Home Loan Bank Stock, Accrued Interest Receivable and Accrued Interest Payable

The carrying amount approximates fair value.

Held-to-maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans and Loan Held for Sale

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include checking and money market savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity time deposits (certificates and other time deposits) is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Borrowings

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

The following table presents estimated fair values of the Company's financial instruments at March 31, 2013.

	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Unaudited, In Thousands)				
Financial assets:				
Cash and cash equivalents	\$ 43,828	\$ 43,828	\$ -	\$ -
Certificates of deposit	1,500	1,500	-	-
Held to maturity investment securities	27,918	-	28,276	-
Loans held for sale	389	-	389	-
Loans, net	192,194	-	-	203,168
Stock in Federal Home Loan Bank of Topeka	2,087	-	2,087	-
Accrued interest receivable	2,515	-	2,515	-
Financial liabilities:				
Deposits	216,255	189,030	-	27,449
Borrowings	6,300	-	6,670	-
Accrued interest payable	104	-	104	-

The following table presents estimated fair values of the Company's financial instruments at December 31, 2012.

	Fair Value Measurements Using			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In Thousands)				
Financial assets:				
Cash and cash equivalents	\$ 7,918	\$ 7,918	\$ -	\$ -
Certificates of deposit	1,500	1,500	-	-
Held to maturity investment securities	25,026	-	25,630	-
Loans held for sale	159	-	159	-
Loans, net	207,157	-	-	220,196
Stock in Federal Home Loan Bank of Topeka	2,076	-	2,076	-
Accrued interest receivable	3,845	-	3,845	-
Financial liabilities:				
Deposits	195,187	166,912	-	28,497
Borrowings	6,300	-	6,617	-
Accrued interest payable	106	-	106	-

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Note 7: Recent Accounting Pronouncements

The Company is an emerging growth company and as such will be subject to the effective dates noted for the private companies if they differ from the effective dates noted for public companies.

FASB ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued ASU 2013-02 to improve the transparency of reporting reclassifications out of accumulated other comprehensive income.

Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income.

The amendments in the Update do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this Update requires already is required to be disclosed elsewhere in the financial statements under U.S. Generally Accepted Accounting Principles (U.S. GAAP).

The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income—but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the impact of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods.

The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013 for private companies. The Company will adopt the provisions of the ASU by the date required, and does not anticipate the ASU will have a material effect on its financial position or results of operations.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

FASB ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The Update clarifies the scope of transactions that are subject to the disclosures about offsetting.

The Update clarifies that ordinary trade receivables and receivables are not in the scope of Accounting Standards Update No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. Specifically, Update 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement.

Issued in December 2011, Update 2011-11 was the result of a joint project with the International Accounting Standards Board. Its objective was to improve transparency and comparability between U.S. GAAP and International Financial Reporting Standards by requiring enhanced disclosures about financial instruments and derivative instruments that are either (1) offset on the statement of financial position or (2) subject to an enforceable master netting arrangement or similar agreement.

The Board undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. The amendments are effective for fiscal year beginning on or after January 1, 2013, and interim periods within those annual periods. Required disclosures should be provided retrospectively for all comparative periods presented. The adoption of this ASU did not have a material effect on the Company's financial position or results of operations.

FASB ASU 2012-04, *Technical Corrections and Improvements*

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*. The amendments in this ASU make technical corrections, clarifications and limited-scope improvements to various Topics throughout the Codification.

This ASU is effective for public entities for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments will be effective for fiscal periods beginning after December 15, 2013. The Company does not anticipate the ASU will have a material effect on its financial position or results of operations.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

FASB ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*

The eligibility criteria for offsetting are different in international financial reporting standards (IFRS) and U.S. generally accepted accounting principles (GAAP). Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position (balance sheet). Unlike IFRS, U.S. GAAP allows companies the option to present net in their balance sheets derivatives that are subject to a legally enforceable netting arrangement with the same party where rights of set-off are only available in the event of default or bankruptcy.

To address these differences between IFRS and U.S. GAAP, in January 2011 the FASB and the IASB (the Boards) issued an exposure draft that proposed new criteria for netting, which were narrower than the current conditions in U.S. GAAP. Nevertheless, in response to feedback from their respective stakeholders, the Boards decided to retain their existing offsetting models. Instead, the Boards have issued common disclosure requirements related to offsetting arrangements to allow investors to better compare financial statements prepared in accordance with IFRS or U.S. GAAP.

The amendments to the FASB Accounting Standards Codification in this ASU require 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. Coinciding with the release of ASU No. 2011-11, the IASB has issued *Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*. This amendment requires disclosures about the offsetting of financial assets and financial liabilities common to those in ASU No. 2011-11.

An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. If applicable, the Company will provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of this ASU did not have a material effect on the Company's financial position or results of operations.

FASB ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*

The amendments included in this ASU change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The application of fair value measurements are not changed as a result of this amendment. Some of the amendments provide clarification of existing fair value measurements requirements while other amendments change a particular principal or requirement for measuring fair value or disclosing information about fair value measurements. The amendments in this ASU are effective for annual periods beginning after December 31, 2012. The Company does not anticipate the ASU will have a material effect on its financial position or results of operations.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Management's discussion and analysis of the financial condition and results of operations at and for three months ended March 31, 2013 and 2012 is intended to assist in understanding the financial condition and results of operations of the Company on a consolidated basis. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes thereto, appearing in Part I, Item 1 of this quarterly report on Form 10-Q.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this quarterly report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in government policy towards farming subsidies, and especially towards the production of ethanol which is highly dependent upon #2 Yellow Corn, the primary commodity produced in our market area;
- competition among depository and other financial institutions;
- our success in continuing to emphasize agricultural real estate and agricultural and commercial non-real estate loans;

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

- changes in the interest rate environment that reduce our margins or reduce the fair value of our financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in deposit insurance premiums, regulatory fees and capital requirements, which increase our compliance costs;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- loan delinquencies and changes in the underlying cash flows of our borrowers;
- changes in our financial condition or results of operations that reduce capital available to pay dividends; and
- changes in the financial condition or future prospects of issuers of securities that we own.

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in Madison County Financial, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission pursuant to Securities Act Rule 424(b)(3) on March 28, 2013.

Comparison of Financial Condition at March 31, 2013 and December 31, 2012

Total assets increased \$23.6 million, or 8.8%, to \$290.9 million at March 31, 2013 from \$267.3 million at December 31, 2012. The increase was due primarily to increases in cash and cash equivalents, investment securities classified as available for sale, and investment securities classified as held to maturity, which was offset in part by a decrease in net loans and interest receivable. The decrease in net loans and the increase in cash and cash equivalents resulted primarily from normal seasonal pay-downs from our farming customers and normal annual loan payments on agricultural real estate loans. Investment securities increased as we used funds received from loan pay-downs and from stock offering proceeds to purchase these securities.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

Net loans decreased \$15.0 million, or 7.2%, to \$192.2 million at March 31, 2013, from \$207.2 million at December 31, 2012. The decrease in our loan portfolio resulted from a decrease in agricultural and commercial non-real estate loans, which decreased \$12.1 million, or 22.6%, to \$41.5 million at March 31, 2013, from \$53.6 million at December 31, 2012, a decrease in agricultural real estate loans, which decreased \$1.0 million, or 1.1%, to \$95.5 million at March 31, 2013, from \$96.6 million at December 31, 2012, and a decrease in one- to four-family residential real estate loans of \$1.2 million, or 3.4%, to \$34.8 million at March 31, 2013, from \$36.0 million at December 31, 2012. The decrease in agricultural and commercial non-real estate loans and the decrease in agricultural real estate loans resulted from seasonal loan pay-downs relating primarily to the cash flow cycle of our farming customers. One- to four-family residential mortgages decreased due primarily to the refinancing and sale of these loans and our decision not to actively compete for these loans in the current interest rate environment.

Investment securities classified as held to maturity increased \$2.9 million, or 11.6%, to \$27.9 million at March 31, 2013, from \$25.0 million at December 31, 2012, and investment securities classified as available for sale increased \$0.9 million, or 10.1%, to \$9.9 million at March 31, 2013, from \$9.0 million at December 31, 2012, as we used funds received from loan pay-downs and proceeds of the stock offering to purchase these securities.

Accrued interest receivable on loans decreased \$1.4 million, or 38.9%, to \$2.2 million at March 31, 2013, from \$3.6 million, at December 31, 2012, due to the \$15.0 decrease in net loans at March 31, 2013 as compared to December 31, 2012, the timing of interest payments due on our loans, and the decrease in the average yield on loans to 5.13% at March 31, 2013, from 5.63% at December 31, 2012.

Deposits increased \$21.1 million, or 10.8%, to \$216.3 million at March 31, 2013, from \$195.2 million at December 31, 2012, due primarily to a net increase in our core deposits. Interest-bearing checking and money market savings accounts increased \$16.9 million, or 15.6%, and \$5.3 million, or 13.0%, respectively, at March 31, 2013, from December 31, 2012, offset by a slight decrease in noninterest-bearing checking of \$307,000, or 1.0%, at March 31, 2013, from December 31, 2012. We believe the net increase in our core deposits resulted from our continued efforts to build relationships with our existing customers as well as our marketing efforts with new customers. Certificates and time deposits decreased \$1.1 million, or 3.7%, to \$27.2 million at March 31, 2013, from \$28.3 million at December 31, 2012, reflecting customer preference for more liquid transaction accounts rather than longer term deposits in the current low interest rate environment.

We borrow periodically from the Federal Home Loan Bank of Topeka ("FHLB-Topeka") and the Federal Reserve Bank of Kansas City ("FRB-Kansas City"), and as needed, to a lesser extent from the Bankers' Bank of the West. Although we expect advances from the FHLB-Topeka and short-term borrowings from FRB-Kansas City to remain an integral part of our funding strategy, our borrowings from the FHLB-Topeka and FRB-Kansas City remained at \$6.3 million at March 31, 2013 from \$6.3 million December 31, 2012. We continue to utilize borrowings as an alternative funding source, and our borrowings from the FHLB-Topeka generally consist of advances with laddered terms of up to 10 years and our borrowings from the FRB-Kansas City are short-term borrowings under our Line of Credit and Seasonal Borrowing Agreement.

Total stockholders' equity increased \$768,000, or 1.2%, to \$62.8 million at March 31, 2013, from \$62.1 million at December 31, 2012. The increase resulted primarily from net income of \$752,000 during the first quarter 2013.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

Comparison of Operating Results for the Three Months Ended March 31, 2013 and 2012

General. Net income decreased to \$752,000 for the three months ended March 31, 2013, from \$1.1 million for the three months ended March 31, 2012. The decrease reflected lower net interest income, an increase in our provision for loan losses, and an increase in other expense, offset partially by a decrease in income tax expense during the 2013 quarter.

Interest and Dividend Income. Interest and dividend income decreased \$225,000, or 7.2%, to \$2.9 million for the quarter ended March 31, 2013 from \$3.1 million for the quarter ended March 31, 2012. The decrease reflected a decrease in the average yield on interest-earning assets to 4.32% for the 2013 quarter from 5.78% for the 2012 quarter, as the 2013 quarter included a higher percentage of assets held in cash and cash equivalents as a result of our public stock offering which closed October 3, 2012, offset by an increase in average interest-earning assets to \$268.0 million for the 2013 quarter compared to \$215.9 million for the 2012 quarter.

Interest income and fees on loans decreased \$293,000, or 10.2%, to \$2.6 million for the three months ended March 31, 2013, from \$2.9 million for the three months ended March 31, 2012, due to a decrease in the average yield on loans to 5.13% during the 2013 quarter from 6.34% in the 2012 quarter, reflecting lower market interest rates, and a decrease in pre-payment penalties, period to period. During the first quarter of 2012, we received pre-payment penalties in the amount of \$288,000 from one farm customer as a result of early payoffs of a series of agricultural loans which totaled \$5.8 million. Interest income on investment securities increased \$58,000, or 26.1%, to \$280,000 for the quarter ended March 31, 2013, from \$222,000 for the quarter ended March 31, 2012, reflecting an increase in the average balance of such securities to \$34.5 million for the 2013 period from \$26.8 million during the 2012 period, offset by a 7 basis point decrease in the average yield on investment securities to 3.26% for 2013 from 3.33% in 2012, reflecting lower market interest rates.

Interest Expense. Interest expense decreased \$21,000, or 4.6%, to \$437,000 for the three months ended March 31, 2013 from \$458,000 for the three months ended March 31, 2012. The decrease reflected a decrease in the average rate paid on interest-bearing deposits and borrowings in the 2013 quarter to 0.89% compared to 1.03% during the 2012 quarter, offset in part by an increase in the average balance of interest-bearing deposits and borrowings to \$197.8 million for the 2013 quarter from \$179.6 million for the 2012 quarter.

Interest expense on interest-bearing deposits decreased \$18,000, or 4.5%, to \$383,000 for the quarter ended March 31, 2013 from \$401,000 for the quarter ended March 31, 2012, as the average rate paid on these deposits decreased to 0.80% during the 2013 period from 0.94% during the 2012 period, offset in part by a \$20.4 million increase in the average balance of these deposits to \$191.5 million for the 2013 quarter from \$171.1 million for the 2012 quarter ended March 31, 2012. Interest expense on borrowings decreased \$3,000, or 5.3%, to \$54,000 during the three months ended March 31, 2013, from \$57,000 during the three months ended March 31, 2012, reflecting a decrease in the average balance of borrowings to \$6.3 million for the 2013 quarter from \$8.5 million for the 2012 quarter, offset in part by a higher rate paid on borrowings to 3.45% from 2.69% quarter to quarter, reflecting a larger percentage of long-term borrowings during the 2013 quarter compared to the 2012 quarter.

Madison County Financial, Inc.

Form 10-Q

(Dollars in thousands)

Net Interest Income. Net interest income decreased \$204,000, or 7.7%, to \$2.4 million for the three months ended March 31, 2013, from \$2.6 million for the three months ended March 31, 2012, reflecting a decrease in our net interest rate spread to 3.43% for the 2013 quarter from 4.75% for the 2012 quarter, as the 2013 quarter included a higher percentage of assets held in cash and cash equivalents as a result of our public stock offering which closed October 3, 2012, offset by an increase in our average net interest-earning assets to \$70.3 million for 2013 from \$36.3 million for 2012. The increase in our average net interest-earning assets resulted primarily from the additional capital raised in the conversion stock offering and earnings which were reinvested in loans and other interest earning assets. The ratio of our average interest-earning assets to average interest-bearing liabilities increased to 135.5% for the 2013 quarter from 120.2% for the 2012 quarter. The decreases in our net interest rate spread and net interest margin reflected the 1.46% decrease in the average yield on our interest-earning assets which was only partially offset by a 14 basis point decrease in the average cost of our interest-bearing liabilities.

Provision for Loan Losses. We recorded a provision for loan losses of \$255,000 for the three months ended March 31, 2013, an increase of \$145,000, or 131.8%, from our provision of \$110,000 for the three months ended March 31, 2012. Our determination to increase our provision resulted in part from management's consideration of the continuing increases in the cost of agricultural real estate in our market area as well as the increases in the costs of crop production. Furthermore, effective December 31, 2011, the federal government allowed a major ethanol subsidy to expire which could adversely impact the price of corn and thus, adversely impact our agricultural borrowers and the risks associated with these types of loans.

The provision for loan losses for the three months ended March 31, 2013 reflected no charge-offs or recoveries compared to net recoveries of \$94,000 for the three months ended March 31, 2012. The allowance for loan losses was \$5.2 million, or 2.6% of total loans, including loans held for sale, compared to \$4.2 million, or 2.38% of total loans, including loans held for sale, at March 31, 2012. Total nonperforming loans were \$278,000 at March 31, 2013 compared to \$265,000 at March 31, 2012. As a percentage of nonperforming loans, the allowance for loan losses was 1,869% at March 31, 2013 compared to 1,593% at March 31, 2012.

Other Income. Other income decreased \$7,000, or 1.5%, to \$458,000 for the three months ended March 31, 2013, from \$465,000 for the three months ended March 31, 2012. The decrease was due primarily to a decrease in gain on sales of loans to \$167,000 for the 2013 quarter from \$176,000 for the 2012 quarter and a decrease in insurance commission income to \$89,000 for the 2013 quarter from \$94,000 for the 2012 quarter, offset by an increase in the loan servicing income to \$49,000 for the 2013 quarter from \$34,000 for the 2012 quarter. The increase in loan servicing income reflects the continuing refinancing activity and management's decision to continue to sell long-term, fixed-rate one- to four-family residential real estate loans in the current loan interest rate environment.

Other Expense. Other expense increased \$221,000, or 15.9%, to \$1.6 million for the three months ended March 31, 2013, from \$1.4 million for the three months ended March 31, 2012, due primarily to an increase in professional fees to \$135,000 for the 2013 quarter from \$15,000 for the 2012 quarter, reflecting additional public company-required costs, and the timing of such services, a \$78,000 increase in salaries and employee benefits expense to \$1.0 million for the 2013 quarter compared to \$872,000 for the 2012 quarter, reflecting normal annual salary increases and payouts under our benefit plans, and an increase of \$10,000 in other expense reflecting normal expense increases, and an increase in our provision for the contingent liability related to sold loans.

Madison County Financial, Inc.
Form 10-Q
(Dollars in thousands)

Income Tax Expense. The provision for income taxes was \$286,000 for the three months ended March 31, 2013, compared to \$486,000 for the three months ended March 31, 2012, reflecting a decrease in pretax income. Our effective tax rate was 27.6% for the quarter ended March 31, 2013 compared to 30.1% for the quarter ended March 31, 2012. This difference resulted primarily from the levels of tax-exempt income derived from our municipal bond investment portfolio and from bank-owned life insurance.

Liquidity and Capital Resources

Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from sale of loans, proceeds from maturities and calls of securities, advances from the Federal Home Loan Bank-Topeka and borrowings from the Federal Reserve Bank of Kansas City, and to a lesser extent from the Bankers' Bank of the West, and other income including income from our insurance agency subsidiary. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period. Additionally, we historically have experienced significant increases in our deposits during the first calendar quarter of each year as a result of our farm customers depositing proceeds from the sale of agricultural commodities during this period. Similarly, our borrowings have historically increased during the fourth calendar quarter of each year in response to increased loan demand from our farm customers during this period, many of whom purchase their crop production supplies (seed, fertilizer, fuel and chemicals) during October through December.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was \$2.9 million and \$3.9 million for the three months ended March 31, 2013 and 2012, respectively. Net cash provided by investing activities, which consists primarily of net change in loans receivable and net change in purchases of/proceeds from maturities of investment securities was \$11.9 million and \$13.0 million for the three months ended March 31, 2013 and 2012, respectively, principally due to a decrease in loans receivable and by purchase of investment securities in excess of maturities. Net cash provided by (used in) financing activities, which is comprised of net change in deposits and proceeds from and repayment of borrowings, was \$21.1 million and \$(7.9) million for the three months ended March 31, 2013 and 2012, respectively, and resulted primarily from the decline in short-term borrowings offset by an increase in deposits.

At March 31, 2013, we exceeded all of our regulatory capital requirements with a Tier 1 (core) capital level of \$47.8 million, or 18.7% of adjusted total assets, which is above the required level of \$10.2 million, or 4.0%; and total risk-based capital of \$51.0 million, or 19.9% of risk-weighted assets, which is above the required level of \$20.5 million, or 8.0%. Accordingly Madison County Bank was categorized well capitalized at March 31, 2013. Management is not aware of any conditions or events since the most recent notification that would change our category.

At March 31, 2013, we had outstanding commitments to originate loans of \$12.4 million and lines of credit of \$34.6 million. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Certificates of deposit that are scheduled to mature in less than one year from March 31, 2013 totaled \$8.2 million. Management expects that a substantial

Madison County Financial, Inc.
Form 10-Q

portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may utilize FHLB-Topeka advances or FRB-Kansas City borrowings or raise interest rates on deposits to attract new accounts, which may result in higher

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable, as the Registrant is a smaller reporting company.

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2013. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended March 31, 2013, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

The Bank is subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Bank's or the Registrant's financial condition or results of operations.

Item 1A. Risk Factors

Not applicable, as the Registrant is a smaller reporting company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) There were no sales of unregistered securities during the period covered by this Report.
- (b) Not applicable.
- (c) There were no issuer repurchases of securities during the period covered by this Report.

Madison County Financial, Inc.
Form 10-Q

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Madison County Financial, Inc.

Date: May 15, 2013

/s/ David J. Warnemunde
David J. Warnemunde
President and Chief Executive Officer

Date: May 15, 2013

/s/ Brenda L. Borchers
Brenda L. Borchers
Chief Financial Officer

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David J. Warnemunde, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Madison County Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2013

/s/ David J. Warnemunde _____
David J. Warnemunde
President and Chief Executive Officer

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brenda L. Borchers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Madison County Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2013

/s/ Brenda L. Borchers
Brenda L. Borchers
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

David J. Warnemunde, President and Chief Executive Officer of Madison County Financial, Inc., (the "Company") and Brenda L. Borchers, Chief Financial Officer of the Company, each certify in his and her capacity as an officer of the Company that he has reviewed the quarterly report on Form 10-Q for the quarter ended March 31, 2013 (the "Report") and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2013

/s/ David J. Warnemunde
David J. Warnemunde
President and Chief Executive Officer

Date: May 15, 2013

/s/ Brenda L. Borchers
Brenda L. Borchers
Chief Financial Officer