

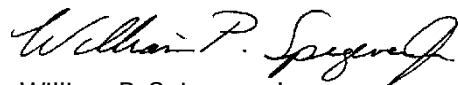
THIRD QUARTER 2011

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2011 quarterly report of AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



William P. Spigener, Jr.
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer



A. Harvey Lemmon
Chairman of the Board

November 7, 2011

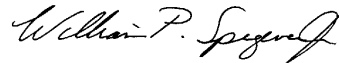
Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and affected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2011. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of September 30, 2011, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2011.



William P. Spigener
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer

November 7, 2011

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2011. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2010 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” “will,” or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, field crops and grains, cotton, horses, and beef cattle. Loans to producers of these commodities total \$1,295,839 or 84.21 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the third quarter of 2011 the Association originated \$26,088 in loans for the secondary market. Originations at the same period 2010 were \$32,733. The 20.30 percent decrease is the result of general market conditions and reluctance by some to enter the housing market. Rates continue to remain low, which is beneficial to qualifying customers. As of September 30, 2011, the Association held \$1,468 in qualifying loans for sale.

Georgia Region

Despite one of the worst droughts in recent history, Georgia's major row crops appear to be fairing pretty well. USDA rates the majority of the peanut, cotton, and corn crops as fair to good with 12 percent of the peanut crop rated excellent. Hay, pasture, and soybeans have been hurt the most by the drought conditions. Corn growers planted 300,000 acres of corn for grain in 2011, up from 245,000 in 2010. The yields are expected to average 148 bushels per acre, boosting expected corn production to more than 44 million bushels in 2011. The state produced 35.5 million bushels in 2010.

Georgia cotton growers planted 65,000 more acres in 2011 than in 2010, and their yields are expected to increase to 870 bales per acre, which would increase the state's production to 2.5 million bales this year, up from 2.25 million in 2010.

Winter wheat production is expected to nearly double, from 5 million bushels in 2010 to 9.9 million bushels in 2011.

The National Agricultural Statistics Service (NASS) forecast harvested acres in hay to decline by 80,000 acres, from 650,000 in 2010 to 570,000 in 2011, and yields are also expected to decline from 2.5 tons per acre in 2010 to 2.2 tons per acre in 2011, producing 1.254 million tons of hay in 2011, a drop of 23 percent from 2010 production.

The peanut crop in Georgia is forecast at 475,000 acres in 2011. The anticipated yields of 3,450 pounds per acre in 2011 are expected to produce 1.638 billion pounds, 17 percent less than the 1.976 billion pounds the state produced in 2010. Due to the shortage of peanut supplies, prices have recently topped \$900 per ton (more than double the historical price levels).

Tobacco acres are up slightly in 2011; however, yields and production are expected to drop. The state's tobacco growers are predicted to produce 26.45 million pounds in 2011, down 3 percent from 2010, when they produced 27.36 million pounds.

High commodity prices and fair to good yields for most major crops should set the stage for a profitable row crop season in 2011 for AgSouth producers. High feed cost due to short national corn stocks and demand from the energy sector on corn have created some stress to the poultry industry at the integrator level; however, recent declines in corn prices and prospects for higher poultry prices indicate improving conditions may be forthcoming.

Georgia continues to be plagued with high unemployment which ended August 2011 at 10.2 percent holding steady at that level since 2009 and well above the national average of 9.1 percent. Despite this high unemployment the State's net tax revenue for 2011 rose 6.2 percent over fiscal year 2010.

Home prices in Georgia have seen a 6.3 percent decline from July 2011 as compared to July 2010. Nationally, that decrease has been 5.2 percent over the same period. Five additional commercial banks in Georgia were closed during the third quarter bringing the total for the year to nineteen. This is the highest in the nation through three quarters.

The Governor's office has announced several new businesses which plan to open within AgSouth's territory during the third quarter. Plasti-Paint Inc. will open a facility in Heard County and employ 60 and invest \$3.7 million in the facility. Firth Rixson Forgings, LLC will open a facility in Liberty County and provide 75 to 100 new jobs making component parts for the aerospace industry. Mando Corp. will open a facility in Meriwether County creating 426 new jobs and investing \$200 million. Mando is an automotive parts supplier. Roofing manufacturer, GAF will open a new plant in Statesboro, Georgia and employ 50 new workers.

Land values appear to be stabilizing after a fairly significant drop in woodland values over the past 3 years. Cultivated land is actually increasing year over year fueled by high commodity prices.

South Carolina Region

The largest source of repayment for loans for South Carolina remains the non-farm salaried income and non-farm corporate income categories with non-farm income repayment more dominant in the Upstate than the Lowcountry. In recent years and including the current fiscal year, the primary performance problems in the region have been associated with non-farm repayment sources including salaries and, even more prominent, investment income.

National unemployment is presently calculated at 9.1 percent while South Carolina unemployment is at 11.1 percent as of August month-end. South Carolina unemployment has increased 0.6 percent since the end of the second quarter and is essentially the same as the same reporting period a year earlier. State payroll employment decreased recently in the trade, transportation, utilities, and leisure and hospitality sectors while manufacturing, professional and business services, education and health services, and government projected employment gains.

From a positive standpoint, South Carolina continues to be considered one of the most attractive business climates in our country according to recent surveys of United States corporate executives. Our state ranks the third best business climate in the country behind only North Carolina and Texas in the survey of best and worst business climates in America. The survey is further evidenced by recent business announcements of major new businesses locating or expanding in the state such as TIGHitco, which is an aerospace manufacturer locating in the Charleston area, and Bridgestone, a tire manufacturer which is building a new \$1.2 billion facility in Aiken. These two projects alone will add over 1,100 jobs directly to the South Carolina workforce without consideration of other associated vendors that will follow these businesses to the state.

During the second quarter, personal income in South Carolina increased slightly and compared favorably with national personal income growth at 1.1 percent. Sectors showing the greatest growth in the state were manufacturing and health care.

Residential real estate sales continue to be a concern in South Carolina. Recent home sales in the state projected a 12.1 percent decline statewide, but the Upstate area (including Greenville, Spartanburg, and the western most counties of the state) actually reflected an increase in housing sales. Statewide, new listings are down 31.7 percent from late summer 2010 while inventories are down by 15.5 percent for the same period. The median price for homes has decreased by 5.1 percent but absorption rates for housing improved over the past year.

As to unimproved rural real estate sales in the AgSouth service area of the state, cropland and pasture continues to hold its value with no significant change noted compared to recent years. There have not been a significant number of farms consisting of cropland and pasture selling in the area; however, where sales have occurred including dry land and irrigated acreage, there has been little deviation in sales price. Timberland values have deteriorated since the beginning of the recession in 2007, but sales observed over the past two quarters indicate some level of stabilization occurring relative to the value of forest land. Timber markets remain volatile throughout the southeast. This aspect continues to influence timberland values in South Carolina, but the primary factor associated with most timberland investments in South Carolina remains the potential for long-term appreciation and recreational use.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2011, was \$1,538,817, an increase of \$11,011 or less than 1 percent as compared to \$1,527,806 at December 31, 2010. Net loans outstanding at September 30, 2011 were \$1,530,577 as compared to \$1,519,306 at December 31, 2010. Net loans accounted for 92.93 percent of total assets at September 30, 2011, as compared to 92.69 percent of total assets at December 31, 2010.

The increase in gross and net loan volume during the reporting period is attributed to advances on existing operating lines and the addition of a few significant size loan transactions exceeding payments scheduled for the third quarter. The Association has curtailed activity in the participations purchased market in order to concentrate on portfolio loan growth and servicing.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2010, the Association held Investment securities totaling \$13,445. These investments are Rural America bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At September 30, 2011, Investment securities totaled \$11,636, a decrease of \$1,809. The 13.45 percent decrease is from normal pay downs of investment balances during the reporting period.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from \$25,295 at December 31, 2010, to \$30,804 at September 30, 2011. This increase is the result of new transfers to nonaccrual status exceeding transfers to other property owned and payouts of loans in nonaccrual status. Association staff is working

diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

Other property owned increased to \$22,495 at September 30, 2011 from \$16,360 at December 31, 2010. The significant increase of \$6,135 or 37.50 percent in other property owned is the result of the acquisition of several pieces of property taken during the reporting period. The acquisitions included significant acreage tracts in both the Georgia and South Carolina territory served. While some sales have occurred as of the date of the writing of this report, additional acquisitions are expected as nonearning assets work through the collection process. The Association is actively marketing all properties for sale. For details, please visit our website at www.agsouthfc.com and click on Property For Sale.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2011, was \$8,240 compared to \$8,500 at December 31, 2010, and was considered by management to be adequate to cover possible losses. The slight decrease in the allowance account is the result of net charge-offs and recoveries exceeding the addition to the allowance account during the reporting period. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in September to review the allowance account. The ALCO determined that an addition to the allowance account was needed. The Association funded the allowance through the provision for loan loss in the amount of \$2,315 during the third quarter.

Premises and equipment, net increased \$411 from \$15,362 at December 31, 2010 to \$15,773 at September 30, 2011. The increase is the result of normal activity within the premises and equipment accounts for the quarter. The Association has purchased a lot in Madison, Georgia on the Highway 441 By Pass. The Association has started construction of the new facility and expects completion to occur in the late fall of 2011. The construction in progress costs are included in the Premises and equipment line item.

RESULTS OF OPERATIONS

For the three months ended September 30, 2011

Net income for the three months ended September 30, 2011, totaled \$9,313 as compared to \$10,489 for the same period in 2010. This is a decrease of \$1,176 or 11.21 percent. The commentary below explains the variance.

At September 30, 2011, interest income decreased \$183 compared to the same period in 2010. The decrease was due to the decrease in interest income on participation purchased loans and interest income on investments in Rural America bonds recognized between the two reporting periods.

Nonaccrual income, which is included in interest income, was \$283 for the three months ended September 30, 2011, as compared to \$505 for the same period in 2010.

Interest expense decreased \$729 for the three months ended September 30, 2011. The decrease is tied to the lower interest rate environment and the ability of the Association to reprice its debt at AgFirst Farm Credit bank at lower rates.

Net interest income before the provision for loan loss increased \$546 for the three months ended September 30, 2011, as compared to the same period in 2010 due primarily to the increase in margin on new and existing loan volume. Net interest income after the provision for loan losses decreased \$293 in the quarter ending September 30, 2011.

The provision for loan loss was \$2,315 for the quarter ending September 30, 2011 as compared to \$1,476 for the quarter ending September 30, 2010. The Association's ALCO made the decision that a provision entry for the quarter ending September 30, 2011 was needed after analyzing the risk in the current portfolio. The analysis included reviewing historical trends, loan size, loan performance, and credit quality reports.

Noninterest income decreased \$130 over the same period last year. Loan fees increased \$40 or 4.32 percent. The increase in fees is tied to loan servicing activity during the period. Fees for financially related services decreased \$57 from \$236 at September 30, 2010 compared to \$179 at September 30, 2011. The equity in earnings from other Farm Credit institutions increased \$78 from \$2,939 at September 30, 2010 to \$3,017 at September 30, 2011. This is an increase of 2.65% and is tied to the higher Notes Payable balance at AgFirst Farm Credit Bank.

In the three months ending September 30, 2011, the Association experienced losses on the sale of Other Property Owned in the amount of \$387. During the same period of 2010, the Association booked gains on the sale of Other Property Owned of \$224. The losses were an accumulation of write downs on several pieces of Other Property Owned held by the Association. Some pieces are under contract for significantly less than the current carrying value, while other write downs were needed due to new appraisals.

Gains on the sale of rural home loans decreased \$283 from \$530 at September 30, 2010 compared to \$247 at September 30, 2011. The decrease in gains is the result of the decrease in originations between the two reporting periods.

Gains on the sale of premises and equipment increased \$417 from \$8 at September 30, 2010 to \$425 at September 30, 2011. The increase is the result of the sale of the South Main Street office building in Madison, Georgia. The Association is currently leasing back the South Main Street office until the new building can be occupied later in the fall.

The other noninterest income increased from \$20 at September 30, 2010 to \$306 at September 30, 2011. Other noninterest income includes the Association's investment in a long-term deferred compensation account maintained for certain key employees and previous retirees, other miscellaneous income, and refunds from the Association's participation in the Farm Credit Captive insurance program. Other noninterest income also includes equities captured from distressed borrowers in certain situations.

Noninterest expense for the three months ended September 30, 2011, increased \$771 or 11.14 percent when compared to the same period of 2010. Salaries and employee benefit expense increased \$558 between the two reporting periods. The increase in salaries and employee benefits is tied to the booking of an incentive accrual in September of \$628. The decision to book the incentive accrual was based upon the specific measures included in the plan using August 31, 2011 results. The increase was offset slightly by the deferral of personnel expenses directly related to loan making required under ASC 310-20 (previously FAS 91).

Occupancy and equipment expense at September 30, 2011 was \$535 compared to \$600 for the same period in 2010. The decrease is from some timing differences as it relates to property insurance expense and maintenance issues.

The Insurance Fund premium increased \$30 from \$169 at September 30, 2010 to \$199 at September 30, 2011. The current premium on accruing loans is 6 basis points and 10 basis points for nonaccrual loans.

Other operating expenses increased \$248 from September 30, 2010, \$1,044 compared to \$1,292 at September 30, 2011. The increase of 23.75 percent is attributed to timing differences in the payment of some training, advertising and public relations expenses, an increase in fees placed in the Farmer Mac in-portfolio guarantee program, and an increase in travel expense due to the higher fuel costs. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

For the nine months ended September 30, 2011

Net income for the nine months ended September 30, 2011, totaled \$26,385 as compared to \$29,463 for the same period in 2010. This is a decrease of \$3,078 or 10.45 percent. The following narrative will explain the variance.

At September 30, 2011, interest income decreased \$504 compared to the same period in 2010. The decrease was due to the decrease in interest income on loans offset slightly by an increase in investment interest income. The investment interest income is generated from several Rural America Bonds made under the Farm Credit Administration's (FCA) Mission Related Investment Program. Nonaccrual income, which is included in interest income, was \$750 for the nine months ended September 30, 2011, as compared to \$928 for

the same period in 2010. The decrease of \$178 or 19.18 percent is the result of the recognition of interest income when nonaccrual loans pay off.

Interest expense decreased \$2,840 for the nine months ended September 30, 2011. The decrease is attributable to the lower interest rate environment and the ability to fix a portion of the Association's lendable equity at favorable rates which resulted in lower interest expense.

Net interest income before the provision for loan loss increased \$2,336 for the nine months ended September 30, 2011 as compared to the same period in 2010 due primarily to the increase in margin on new volume and focused repricing efforts on existing loan volume. Net interest income after the provision for loan losses increased \$1,474 in the period ending September 30, 2011. This increase is the result of focused repricing efforts and is offset by a slightly higher provision expense between the two reporting periods.

The provision amounts are \$5,302 and \$4,440 for the September 30, 2011 and 2010 periods, respectively. In September 2011, the Association's ALCO made the decision that a provision entry was needed after analyzing the risk in the current portfolio. The ALCO authorized provision entries of \$1,581 in March, \$1,406 in June and \$2,315 in September. The analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income decreased \$2,877 over the same period last year. Loan fees decreased \$251 or 8.24 percent. In the first nine months of 2010, the Association collected significant fee income on several large accounts. This has not reoccurred in the same period of 2011. Fees for financially related services increased \$88 from \$506 at September 30, 2010 compared to \$594 at September 30, 2011. The 17.39 percent increase in fees for financially related services is the result of increased income earned on sales of multi-peril insurance, leasing and fee appraisal services.

The equity in earnings from other Farm Credit institutions increased \$142 from \$9,629 at September 30, 2010 to \$9,771 at September 30, 2011. In June 2011, AgFirst made a special patronage distribution of \$853 due to their earnings year-to-date 2011. The 2011 special distribution is slightly more than the 2010 special distribution of \$824. The special distribution should be considered as nonrecurring.

Losses on the sale or write down of other property owned totaled \$1,531 for the nine months ending September 30, 2011. When compared to the same period in 2010, gains on other property owned totaled \$270. The losses or write downs were required after sale closings and/or new appraisals were obtained and the book value needed to more accurately reflect market value.

Gains on the sale of rural home loans decreased \$135 from \$1,164 at September 30, 2010 to \$1,029 at September 30, 2011.

Gains decreased due to the decrease in the origination and sale of rural home loans.

Gains of the sale of premises and equipment increased \$413 from \$185 at September 30, 2010 to \$598 at September 30, 2011. The increase is the result of the sale of two office buildings in Madison, Georgia. The North Main Street building was sold as a result of consolidating offices. The South Main Street office building in Madison, Georgia was sold due to a new office under construction. The Association is currently leasing back the South Main Street office until the new building can be occupied later in the fall.

Noninterest income from FCSIC refunds decreased from \$1,712 at September 30, 2010 to \$0 at September 30, 2011. No premium refund from the FCSIC has been received as of September 30, 2011. Other noninterest income increased \$379 from \$218 at September 30, 2010 compared to \$597 at September 30, 2011.

Noninterest expense for the nine months ended September 30, 2011, increased \$1,733 compared to the same period of 2010. Salaries and employee benefit expense increased \$999 between the two reporting periods. The 5.94 percent increase in salaries and employee benefits is tied to the increase in benefit expense, primarily retirement and medical benefits, between the two reporting periods.

The Association booked an accrual for the 2011 incentive payment based upon plan results which is included in salary and benefit expense. The Association evaluated 2011 performance measures for incentive purposes and determined that some employees would earn incentive in 2011. Based upon this information, the Association accrued \$471 in incentive in June 2011 and \$628 in September.

Occupancy and equipment expense at September 30, 2011 was \$1,671 compared to \$1,705 for the same period in 2010. The decrease is from timing differences as it relates to maintenance issues.

The Insurance Fund premium increased from \$493 at September 30, 2010 to \$580 at September 30, 2011. The increase of 17.65 percent is tied to the increase in loan volume. The current premium on loans paid to the FCSIC is 6 basis points for accruing volume and 10 basis points for nonaccrual volume.

Other operating expenses increased \$681 from \$3,424 at September 30, 2010 to \$4,105 at September 30, 2011. The increase is the result of increases in travel costs due to the higher gasoline prices, fees paid to Farmer Mac for the use of the in-portfolio guarantee program and training. Some training activities occurred in 2011 that did not occur in 2010. Association management looked at the operating expense budget for the remainder of 2011 and took steps to control expenses to the extent possible for the remainder of 2011.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2011 was \$1,367,977 as compared to \$1,358,611 at December 31, 2010. The increase is related to the increase in loan volume, including nonearning assets, between the two reporting periods.

As of September 30, 2011, the Association had invested \$50,000 of its lendable equity in fixed rate notes. These fixed rate notes have maturities ranging from January 2012 through January 2013.

CAPITAL RESOURCES

Total members' equity at September 30, 2011 increased by \$7,373 to \$254,262 from the December 31, 2010 total of \$246,889. The increase is primarily attributed to the increase in earnings of the Association offset by the revolvment of allocated equities and the retirement of capital stock and participation certificates during the reporting period. At December 31, 2010, allocated retained earnings totaled \$115,860. At September 30, 2011, the allocated retained earnings had decreased to \$94,338. The variance is the result of the revolvment of equities from fiscal year 2005 in April, 2011. There was also an adjustment in the amount of the patronage distribution for the 2010 year which was finalized in the first quarter of 2011. The actual patronage distribution differed from the estimated patronage distribution by \$1,699. The estimate is prepared using November month-end data and projecting through year-end. The estimate was off due to some unanticipated losses on other property owned that occurred in late December 2010.

Total capital stock and participation certificates were \$6,768 on September 30, 2011, compared to \$6,677 on December 31, 2010. The increase is attributed to the purchase of new stock for new borrowing entities in excess of retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus, and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus, and core surplus, as defined in FCA regulations,

by a risk-adjusted asset base. As of September 30, 2011, the Association's total surplus ratio and core surplus ratio were 14.70 percent and 10.44 percent, respectively, and the permanent capital ratio was 15.15 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

In the quarterly report ending March 31, 2011, the total surplus ratio was incorrectly reported at 14.12 percent. The correct ratio for the quarter ending March 31, 2011 was 15.44 percent.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. The purpose of these guarantees is to improve the Association's capital position. At September 30, 2011, the Association had loans totaling \$43,514 in this program. The cost of the guarantees year to date was \$188. The use of the Farmer Mac in-portfolio guarantee has a positive effect on the Association's capital ratios.

At December 31, 2010, the Association's permanent capital ratio was 14.93 percent. The increase to 15.15 percent permanent capital at September 30, 2011 is the result of the Association's decision to retain income in unallocated surplus, the limited growth on the balance sheet, and the use of various loan guarantee programs, including FSA, SBA and Farmer Mac. The Association has other tools available to strengthen the capital position. These options include selling additional loans to AgFirst and others, placing additional pools of loans with Farmer Mac in the in-portfolio guarantee program, and participating with AgFirst in a capitalized participation pool. All options are being studied should management and the Board determine that steps are necessary to maintain the Association's strong capital position.

REGULATORY MATTERS

On August 18, 2011, the FCA published for comment an amendment to the regulations governing investments held by institutions of the System. The stated objectives of the proposed rule are to:

- ensure that the Banks hold sufficient high quality, readily marketable investments to provide sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption;
- strengthen the safety and soundness of System institutions;
- seek comments on how the FCA can comply with section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the FCA to remove all references to and requirements relating to credit ratings and to substitute other appropriate standards of creditworthiness;

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- reduce regulatory burden with respect to investments that fail to meet eligibility criteria after purchase or are unsuitable; and
 - enhance the ability of the System to supply credit to agriculture and aquatic producers by ensuring adequate availability to funds.

The System is in the process of developing a response to the proposed amendment to the investment regulations. Comments are due by November 16, 2011.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-310-4805, ext. 6737, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 4966, Spartanburg, SC 29305, or accessing the website www.agsouthfc.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2011 <i>(unaudited)</i>	December 31, 2010 <i>(audited)</i>
Assets		
Cash	\$ 2,242	\$ 1,957
Investment securities:		
Held to maturity (fair value of \$12,626 and \$13,724 respectively)	11,636	13,445
Loans	1,538,817	1,527,806
Less: allowance for loan losses	8,240	8,500
Net loans	1,530,577	1,519,306
Loans held for sale	1,468	620
Accrued interest receivable	16,587	16,249
Investments in other Farm Credit institutions	26,132	26,187
Premises and equipment, net	15,773	15,362
Other property owned	22,495	16,360
Due from AgFirst Farm Credit Bank	8,557	13,894
Other assets	11,588	15,740
Total assets	<u>\$ 1,647,055</u>	<u>\$ 1,639,120</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,367,977	\$ 1,358,611
Accrued interest payable	3,161	3,536
Patronage refund payable	143	8,956
Other liabilities	21,512	21,128
Total liabilities	<u>1,392,793</u>	<u>1,392,231</u>
Commitments and contingencies		
Members' Equity		
Protected borrower stock	106	152
Capital stock and participation certificates	6,662	6,525
Retained earnings		
Allocated	94,338	115,860
Unallocated	153,474	124,660
Accumulated other comprehensive income (loss)	(318)	(308)
Total members' equity	<u>254,262</u>	<u>246,889</u>
Total liabilities and members' equity	<u>\$ 1,647,055</u>	<u>\$ 1,639,120</u>

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Interest Income				
Investment securities	\$ 175	\$ 199	\$ 532	\$ 526
Loans	24,491	24,650	72,634	73,144
Total interest income	24,666	24,849	73,166	73,670
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	10,046	10,805	30,839	33,937
Other	33	3	271	13
Total interest expense	10,079	10,808	31,110	33,950
Net interest income	14,587	14,041	42,056	39,720
Provision for loan losses	2,315	1,476	5,302	4,440
Net interest income after provision for loan losses	12,272	12,565	36,754	35,280
Noninterest Income				
Loan fees	965	925	2,795	3,046
Fees for financially related services	179	236	594	506
Patronage refund from other Farm Credit institutions	3,017	2,939	9,771	9,629
Gains (losses) on other property owned, net	(387)	224	(1,531)	270
Gains (losses) on sale of rural home loans, net	247	530	1,029	1,164
Gains (losses) on sales of premises and equipment, net	425	8	598	185
Insurance Fund refunds	—	—	—	1,712
Other noninterest income	306	20	597	218
Total noninterest income	4,752	4,882	13,853	16,730
Noninterest Expense				
Salaries and employee benefits	5,666	5,108	17,812	16,813
Occupancy and equipment	535	600	1,671	1,705
Insurance Fund premium	199	169	580	493
Other operating expenses	1,292	1,044	4,105	3,424
Total noninterest expense	7,692	6,921	24,168	22,435
Income before income taxes	9,332	10,526	26,439	29,575
Provision for income taxes	19	37	54	112
Net income	\$ 9,313	\$ 10,489	\$ 26,385	\$ 29,463

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Capital	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2009	\$ 208	\$ 6,277	\$ 111,658	\$ 116,982	\$ (292)	\$ 234,833
Comprehensive income						
Net income				29,463		29,463
Employee benefit plans adjustments					25	25
Total comprehensive income						29,488
Protected borrower equity retired	(56)					(56)
Capital stock/participation certificates issued/(retired), net		175				175
Retained earnings retired			(15,006)			(15,006)
Patronage distribution adjustment			(206)	465		259
Balance at September 30, 2010	\$ 152	\$ 6,452	\$ 96,446	\$ 146,910	\$ (267)	\$ 249,693
Balance at December 31, 2010	\$ 152	\$ 6,525	\$ 115,860	\$ 124,660	\$ (308)	\$ 246,889
Comprehensive income						
Net income				26,385		26,385
Employee benefit plans adjustments					(10)	(10)
Total comprehensive income						26,375
Protected borrower equity retired	(46)					(46)
Capital stock/participation certificates issued/(retired), net		137				137
Retained earnings retired			(19,823)			(19,823)
Patronage distribution adjustment			(1,699)	2,429		730
Balance at September 30, 2011	\$ 106	\$ 6,662	\$ 94,338	\$ 153,474	\$ (318)	\$ 254,262

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2010, are contained in the 2010 Annual Report to Shareholders. These unaudited third quarter 2011 consolidated financial statements should be read in conjunction with the 2010 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the nine months ended September 30, 2011, are not necessarily indicative of the results to be expected for the year ending December 31, 2011.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of September 30, 2011, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The amendment is intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including

benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This amendment is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. This guidance is to be applied retrospectively. For public entities, it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market

participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted.

In April 2011, the FASB issued guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance is effective for nonpublic entities, including the Association, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011. The impact of adoption of this guidance, if any, is expected to be immaterial to the Association's financial condition and results of operations, but it will result in additional disclosures.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This amendment provides additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures were amended to include additional disclosures of financing receivables on both a portfolio segment and class of financing receivable basis. This includes a rollforward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disclosed on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables, nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For public entities, the disclosures as of the end of a reporting period were effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period were effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in significant additional disclosures (see Note 3).

Effective January 1, 2010, the Association adopted FASB guidance "Fair Value Measurements and Disclosures," which is intended to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes provide a greater level of disaggregated information and more detailed disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures (see Note 5).

Other recently issued accounting pronouncements are discussed in the 2010 Annual Report to Shareholders.

NOTE 2 – INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at September 30, 2011 and December 31, 2010 follows:

	September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 11,636	\$ 990	\$ -	\$ 12,626	4.63%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 13,445	\$ 279	\$ -	\$ 13,724	4.86%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at September 30, 2011 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	11,636	12,626	4.63
Total	\$ 11,636	\$ 12,626	4.63 %

The Association's mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position at September 30, 2011 or December 31, 2010.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs. All securities continue to perform and are in an unrealized gain position at September 30, 2011.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding as of September 30, 2011 and December 31, 2010, follows:

	September 30, 2011	December 31, 2010
Real estate mortgage	\$ 1,182,634	\$ 1,159,701
Production and intermediate-term Agribusiness	291,208	302,269
Loans to cooperatives	2,206	2,719
Processing and marketing	16,262	17,686
Farm-related business	10,667	10,015
Total agribusiness	29,135	30,420
Rural residential real estate	35,580	35,416
Other	260	-
Total Loans	\$ 1,538,817	\$ 1,527,806

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. The following tables present participations purchased and sold balances at September 30, 2011 and December 31, 2010:

September 30, 2011									
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total		
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	
Real estate mortgage	\$ 849	\$ 146,730	\$ -	\$ 3,950	\$ -	\$ -	\$ 849	\$ 150,680	
Production and intermediate-term Agribusiness	2,620	79,441	2,805	3,506	1,189	(53)	6,614	82,894	
Loans to cooperatives	2,020	-	-	-	-	-	2,020	-	
Processing and marketing	5,456	23,076	343	-	-	-	5,799	23,076	
Total agribusiness	7,476	23,076	343	-	-	-	7,819	23,076	
Total	\$ 10,945	\$ 249,247	\$ 3,148	\$ 7,456	\$ 1,189	\$ (53)	\$ 15,282	\$ 256,650	

December 31, 2010									
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total		
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	
Real estate mortgage	\$ 5,646	\$ 175,056	\$ -	\$ 4,526	\$ -	\$ 1,950	\$ 5,646	\$ 181,532	
Production and intermediate-term Agribusiness	2,943	52,973	2,887	7,693	1,334	(10)	7,164	60,656	
Loans to cooperatives	2,501	-	-	-	47	-	2,548	-	
Processing and marketing	7,335	22,765	491	-	-	-	7,826	22,765	
Total agribusiness	9,836	22,765	491	-	47	-	10,374	22,765	
Total	\$ 18,425	\$ 250,794	\$ 3,378	\$ 12,219	\$ 1,381	\$ 1,940	\$ 23,184	\$ 264,953	

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2011 and indicates that approximately 15.15 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 72,687	\$ 286,671	\$ 823,276	\$ 1,182,634
Production and intermediate-term Agribusiness	142,662	106,709	41,837	291,208
Loans to cooperatives	2,167	39	-	2,206
Processing and marketing	9,979	5,638	645	16,262
Farm-related business	607	6,678	3,382	10,667
Total agribusiness	12,753	12,355	4,027	29,135
Rural residential real estate	4,974	5,651	24,955	35,580
Other	-	-	260	260
Total Loans	\$ 233,076	\$ 411,386	\$ 894,355	\$ 1,538,817

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010		September 30, 2011	December 31, 2010
Real estate mortgage:			Farm-related business:		
Acceptable	94.26%	93.05%	Acceptable	90.34%	80.96%
OAEM	3.79	4.64	OAEM	9.65	19.04
Substandard/doubtful/loss	1.95	2.31	Substandard/doubtful/loss	0.01	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Total agribusiness:		
Acceptable	82.52%	83.46%	Acceptable	85.67%	72.40%
OAEM	6.84	11.21	OAEM	3.53	20.19
Substandard/doubtful/loss	10.64	5.33	Substandard/doubtful/loss	10.80	7.41
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	91.12%	93.05%
Acceptable	100.00%	13.95%	OAEM	2.87	4.33
OAEM	-	86.05	Substandard/doubtful/loss	6.01	2.62
Substandard/doubtful/loss	-	-		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	Total Loans:		
Processing and marketing:			Acceptable	91.80%	90.73%
Acceptable	80.68%	76.56%	OAEM	4.34	6.25
OAEM	-	10.76	Substandard/doubtful/loss	3.86	3.02
Substandard/doubtful/loss	19.32	12.68		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			

The following table provides an age analysis of past due loans and related accrued interest as of September 30, 2011 and December 31, 2010:

	September 30, 2011					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 10,032	\$ 4,539	\$ 14,571	\$ 1,180,223	\$ 1,194,794	\$ -
Production and intermediate-term	4,823	8,379	13,202	281,951	295,153	-
Agribusiness						
Loans to cooperatives	-	-	-	2,212	2,212	-
Processing and marketing	-	1,285	1,285	15,149	16,434	-
Farm-related business	50	-	50	10,713	10,763	-
Total agribusiness	50	1,285	1,335	28,074	29,409	-
Rural residential real estate	644	1,340	1,984	33,783	35,767	-
Other	-	-	-	261	261	-
Total	\$ 15,549	\$ 15,543	\$ 31,092	\$ 1,524,292	\$ 1,555,384	\$ -
	December 31, 2010					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 9,762	\$ 5,592	\$ 15,354	\$ 1,155,868	\$ 1,171,222	\$ -
Production and intermediate-term	1,694	6,217	7,911	298,525	306,436	-
Agribusiness						
Loans to cooperatives	-	-	-	2,728	2,728	-
Processing and marketing	407	472	879	17,093	17,972	-
Farm-related business	63	-	63	9,999	10,062	-
Total agribusiness	470	472	942	29,820	30,762	-
Rural residential real estate	377	456	833	34,748	35,581	-
Total	\$ 12,303	\$ 12,737	\$ 25,040	\$ 1,518,961	\$ 1,544,001	\$ -

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate mortgage	\$ 10,063	\$ 12,090
Production and intermediate-term	17,751	12,178
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	1,287	472
Farm-related business	1	1
Total agribusiness	1,288	473
Rural residential real estate	1,702	554
Total nonaccrual loans	<u>\$ 30,804</u>	<u>\$ 25,295</u>
Accruing restructured loans:		
Real estate mortgage	\$ 172	\$ -
Production and intermediate-term	-	123
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing restructured loans	<u>\$ 172</u>	<u>\$ 123</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	-	-
Agribusiness		
Loans to cooperatives	-	-
Processing and marketing	-	-
Farm-related business	-	-
Total agribusiness	-	-
Rural residential real estate	-	-
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 30,976	\$ 25,418
Other property owned	22,495	16,360
Total nonperforming assets	<u>\$ 53,471</u>	<u>\$ 41,778</u>
Nonaccrual loans as a percentage of total loans	2.00%	1.66%
Nonperforming assets as a percentage of total loans and other property owned	3.42%	2.71%
Nonperforming assets as a percentage of capital	21.03%	16.92%

The following table presents information relating to impaired loans (including accrued interest) at September 30, 2011 and December 31, 2010. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2011	December 31, 2010
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 8,981	\$ 8,811
Past due	21,823	16,484
Total impaired nonaccrual loans	<u>30,804</u>	<u>25,295</u>
Impaired accrual loans:		
Restructured	172	123
90 days or more past due	-	-
Total impaired accrual loans	<u>172</u>	<u>123</u>
Total impaired loans	<u>\$ 30,976</u>	<u>\$ 25,418</u>

Additional impaired loan information as of September 30, 2011 and December 31, 2010 is as follows:

	September 30, 2011			Quarter Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	\$ 1,358	\$ 1,550	\$ 64	\$ 1,351	\$ 13	\$ 1,375	\$ 35
Production and intermediate-term Agribusiness	8,838	9,336	2,003	8,797	85	8,953	227
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	6	67	5	6	-	6	-
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	6	67	5	6	-	6	-
Rural residential real estate	1,184	1,178	580	1,179	12	1,200	30
Total	\$ 11,386	\$ 12,131	\$ 2,652	\$ 11,333	\$ 110	\$ 11,534	\$ 292
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 8,877	\$ 10,788	\$ -	\$ 8,837	\$ 86	\$ 8,993	\$ 228
Production and intermediate-term Agribusiness	8,913	11,953	-	8,872	86	9,029	229
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	1,281	1,689	-	1,274	12	1,297	33
Farm-related business	1	25	-	1	-	1	-
Total agribusiness	1,282	1,714	-	1,275	12	1,298	33
Rural residential real estate	518	595	-	515	5	524	14
Total	\$ 19,590	\$ 25,050	\$ -	\$ 19,499	\$ 189	\$ 19,844	\$ 504
Total impaired loans:							
Real estate mortgage	\$ 10,235	12,338	64	\$ 10,188	\$ 99	\$ 10,368	\$ 263
Production and intermediate-term Agribusiness	17,751	21,289	2,003	17,669	171	17,982	456
Loans to cooperatives	-	-	-	-	-	-	-
Processing and marketing	1,287	1,756	5	1,280	12	1,303	33
Farm-related business	1	25	-	1	-	1	-
Total agribusiness	1,288	1,781	5	1,281	12	1,304	33
Rural residential real estate	1,702	1,773	580	1,694	17	1,724	44
Total	\$ 30,976	\$ 37,181	\$ 2,652	\$ 30,832	\$ 299	\$ 31,378	\$ 796

	December 31, 2010			Year Ended December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 6,370	\$ 6,315	\$ 576	\$ 8,822	\$ 5
Production and intermediate-term Agribusiness	1,762	2,006	173	2,440	1
Processing and marketing	471	754	82	653	-
Farm-related business	-	-	-	-	-
Total agribusiness	471	754	82	653	-
Rural residential real estate	305	299	40	423	-
Total	\$ 8,908	\$ 9,374	\$ 871	\$ 12,338	\$ 6
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 5,720	\$ 8,627	\$ -	\$ 7,924	\$ 4
Production and intermediate-term Agribusiness	10,539	12,018	-	14,597	8
Processing and marketing	1	985	-	-	-
Farm-related business	1	25	-	1	-
Total agribusiness	2	1,010	-	1	-
Rural residential real estate	249	302	-	344	-
Total	\$ 16,510	\$ 21,957	\$ -	\$ 22,866	\$ 12
Total impaired loans:					
Real estate mortgage	\$ 12,090	14,942	576	\$ 16,746	\$ 9
Production and intermediate-term Agribusiness	12,301	14,024	173	17,037	9
Processing and marketing	472	1,739	-	653	-
Farm-related business	1	25	82	1	-
Total agribusiness	473	1,764	82	654	-
Rural residential real estate	554	601	40	767	-
Total	\$ 25,418	\$ 31,331	\$ 871	\$ 35,204	\$ 18

Unpaid principal balance represents the contractual principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2011 and December 31, 2010.

A summary of changes in the allowance for loan losses and period end recorded investment in loans at September 30, 2011 and December 31, 2010 is as follows:

September 30, 2011						
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Rural Residential Real Estate	Other	Total
Allowance for credit losses:						
Balance at December 31, 2010	\$ 6,422	\$ 1,624	\$ 236	\$ 218	\$ -	\$ 8,500
Charge-offs	(3,885)	(2,024)	(117)	(58)	-	(6,084)
Recoveries	500	-	-	22	-	522
Provision for loan losses	1,320	3,463	(8)	526	1	5,302
Balance at September 30, 2011	<u>\$ 4,357</u>	<u>\$ 3,063</u>	<u>\$ 111</u>	<u>\$ 708</u>	<u>\$ 1</u>	<u>\$ 8,240</u>

September 30, 2011 allowance ending balance:

Loans individually evaluated for impairment	\$ 64	\$ 2,003	\$ 5	\$ 580	\$ -	\$ 2,652
Loans collectively evaluated for impairment	<u>\$ 4,293</u>	<u>\$ 1,060</u>	<u>\$ 106</u>	<u>\$ 128</u>	<u>\$ 1</u>	<u>\$ 5,588</u>

Recorded investment in loans outstanding:

Ending Balance at September 30, 2011	<u>\$ 1,194,794</u>	<u>\$ 295,153</u>	<u>\$ 29,409</u>	<u>\$ 35,767</u>	<u>\$ 261</u>	<u>\$ 1,555,384</u>
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September 30, 2011 recorded investment ending balance:

Loans individually evaluated for impairment	\$ 10,085	\$ 17,718	\$ 1,285	\$ 1,698	\$ -	\$ 30,786
Loans collectively evaluated for impairment	<u>\$ 1,184,709</u>	<u>\$ 277,435</u>	<u>\$ 28,124</u>	<u>\$ 34,069</u>	<u>\$ 261</u>	<u>\$ 1,524,598</u>

December 31, 2010						
	Real Estate Mortgage	Production and Intermediate -term	Agribusiness	Rural Residential Real Estate	Total	
Allowance for credit losses:						
Balance at December 31, 2009	\$ 6,563	\$ 2,224	\$ 510	\$ 200	\$ -	\$ 9,497
Charge-offs	(3,460)	(2,766)	(347)	(87)	-	(6,660)
Recoveries	539	70	-	28	-	637
Provision for loan losses	2,780	2,096	73	77	-	5,026
Balance at December 31, 2010	<u>\$ 6,422</u>	<u>\$ 1,624</u>	<u>\$ 236</u>	<u>\$ 218</u>	<u>\$ -</u>	<u>\$ 8,500</u>

December 31, 2010 allowance ending balance:

Loans individually evaluated for impairment	\$ 576	\$ 173	\$ 82	\$ 40	\$ -	\$ 871
Loans collectively evaluated for impairment	<u>\$ 5,846</u>	<u>\$ 1,451</u>	<u>\$ 154</u>	<u>\$ 178</u>	<u>\$ -</u>	<u>\$ 7,629</u>

Recorded investment in loans outstanding:

Ending Balance at December 31, 2010	<u>\$ 1,171,222</u>	<u>\$ 306,436</u>	<u>\$ 30,762</u>	<u>\$ 35,581</u>	<u>\$ -</u>	<u>\$ 1,544,001</u>
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December 31, 2010 recorded investment ending balance:

Loans individually evaluated for impairment	\$ 12,091	\$ 12,301	\$ 472	\$ 554	\$ -	\$ 25,418
Loans collectively evaluated for impairment	<u>\$ 1,159,131</u>	<u>\$ 294,135</u>	<u>\$ 30,290</u>	<u>\$ 35,027</u>	<u>\$ -</u>	<u>\$ 1,518,583</u>

NOTE 4 – EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the nine months ended September 30,	
	2011	2010
Pension	\$ 4,696	\$ 4,261
401(k)	422	365
Other postretirement benefits	809	669
Total	\$ 5,927	\$ 5,295

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/11	Projected Contributions For Remainder of 2011	Projected Total Contributions 2011
Pension	\$ 64	\$ 5,013	\$5,077
Other postretirement benefits	504	269	773
Total	\$ 568	\$ 5,282	\$5,850

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2011.

Further details regarding employee benefit plans are contained in the 2010 Annual Report to Shareholders.

NOTE 5 – FAIR VALUE MEASUREMENT

Effective January 1, 2008, the Association adopted FASB guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value and expands the Association's fair value disclosures for certain assets and liabilities measured at fair value on a recurring and non-recurring basis. These assets and liabilities consist primarily of assets held in trust funds, standby letters of credit, impaired loans, and other property owned. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

This guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the

reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs and the classification of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at September 30, 2011 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at September 30, 2011.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Level 3 assets at September 30, 2011 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other property owned is classified as a Level 3 asset at September 30, 2011. The fair value for other property owned is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Level 3 liabilities at September 30, 2011 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy levels:

September 30, 2011				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 705	\$ -	\$ -	\$ 705
Total Assets	\$ 705	\$ -	\$ -	\$ 705

Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 9	\$ 9
Total Liabilities	\$ -	\$ -	\$ 9	\$ 9

December 31, 2010				
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	\$ 725	\$ -	\$ -	\$ 725
Total Assets	\$ 725	\$ -	\$ -	\$ 725

Liabilities:				
Standby letters of credit	\$ -	\$ -	\$ 78	\$ 78
Total Liabilities	\$ -	\$ -	\$ 78	\$ 78

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2011 and 2010. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first nine months of 2011 and 2010.

	Standby Letters Of Credit
Balance at January 1, 2011	\$ 78
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases	-
Sales	-
Issuances	-
Settlements	(69)
Transfers in and/or out of level 3	-
Balance at September 30, 2011	\$ 9

	Standby Letters Of Credit
Balance at January 1, 2010	\$ 94
Total gains or (losses) realized/unrealized:	
Included in earnings	-
Included in other comprehensive loss	-
Purchases, sales, issuances and settlements, net	32
Transfers in and/or out of level 3	-
Balance at September 30, 2010	\$ 126

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis during the period at September 30, 2011 and December 31, 2010 for each of the fair value hierarchy values are summarized below:

September 30, 2011					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 8,734	\$ 8,734	\$ (7,343)
Other property owned	\$ -	\$ -	\$ 21,695	\$ 21,695	\$ (1,401)

December 31, 2010					
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired loans	\$ -	\$ -	\$ 8,037	\$ 8,037	\$ (5,624)
Other property owned	\$ -	\$ -	\$ 16,643	\$ 16,643	\$ (4,184)

NOTE 6 — DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables present the carrying amounts and fair values of the Association's financial instruments at September 30, 2011 and December 31, 2010.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The estimated fair values of the Association's financial instruments are as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash	\$ 2,242	\$ 2,242	\$ 1,957	\$ 1,957
Investment securities	\$ 11,636	\$ 12,626	\$ 13,499	\$ 13,724
Loans, net of allowance	\$ 1,547,144	\$ 1,571,670	\$ 1,535,501	\$ 1,550,018
Assets held in trust funds	\$ 705	\$ 705	\$ 725	\$ 725
Financial liabilities:				
Notes payable to AgFirst Farm Credit Bank	\$ 1,371,138	\$ 1,382,062	\$ 1,362,147	\$ 1,360,654

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

The carrying value is primarily a reasonable estimate of fair value.

B. Loans:

Because no active market exists for the Association's loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. Discount rates are based on the Bank's loan rates as well as management estimates.

For purposes of determining fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. Fair value of loans in a nonaccrual

status is estimated to be the carrying amount of the loan less specific reserves.

The book value of accrued interest, which has been included in the carrying amount of loans, approximates its fair value.

C. Investment in AgFirst Farm Credit Bank and Other Farm Credit Institutions:

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 6.52 percent of the issued stock of the Bank as of September 30, 2011 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.3 billion and shareholders' equity totaled \$2.2 billion. The Bank's earnings were \$295 million during the first nine months of 2011.

In addition, the Association has an investment of \$2,964 related to other Farm Credit institutions.

D. Notes Payable to AgFirst Farm Credit Bank:

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

The book value of accrued interest, which has been included in the carrying amount of notes payable, approximates its fair value.

E. Commitments to Extend Credit:

The estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics and since the related credit risk is not significant.

F. Assets Held in Trust Funds:

See Note 5 for discussion of estimation of fair value for this instrument.

Investment Securities:

Fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the Association received updated information from a borrower which led the Association to conclude that the account should be moved from an accruing status to a nonaccruing status. At the receipt of this information the asset totaling \$11,990 was moved from accruing status to nonaccruing status. There was no material amount of reversal of interest income booked as a part of the change in loan status.