AgSouth Farm Credit, ACA

FIRST QUARTER 2012

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2012 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

Arthur Q. Black
Chairman of the Board

May 9, 2012

AgSouth Farm Credit, ACA

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 March 31, 2012. 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 March 31, 2012, 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 March 31, 2012.

William P. Spigener

William P. Spigener
Chief Executive Officer

Alisa D. Gunter

Alisa D. Gunter
Chief Financial Officer

May 9, 2012

AgSouth Farm Credit, ACA

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 March 31, 2012. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2011 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 $1,215,869 or 83.59 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 first quarter of 2012 the Association originated $29,243 in loans for the secondary market. Originations at the same period 2011 were $28,653. The 2.06 percent increase is the result of improved market conditions. Rates continue to remain low, which is beneficial to qualifying customers. As of March 31, 2012, the Association held $2,427 in qualifying loans for sale.

Georgia Region

Weather conditions during the first quarter have been favorable and have resulted in a high percentage of crops growing at this time being rated good to excellent. These are primarily fruit and vegetable crops and winter wheat. The April 9 USDA crop progress report rates 30 percent of the peach crop and 22 percent of the blueberry crop as excellent. An additional 50 percent of each crop is rated fair to good, giving a very favorable outlook at this time.

The 2012 sweet onion crop is also rated 86 percent fair, good, or excellent, again a very favorable outlook just days before harvest. Many producers are expected to begin harvest within 5 to 10 days. Also according to USDA, 84 percent of the Georgia corn crop is planted as of April 9, with 85 percent rated good to excellent. The winter wheat crop is also expected to be very good.

Almost 100 percent of the fruit and vegetable crops are under irrigation despite the fact that approximately 50 percent of the Georgia region reports adequate rainfall levels so far this year. Lack of rain moving forward into spring could certainly affect the peanut and cotton crops which will be planted over the next 60 days, but irrigation will benefit these crops as well.

Commodity prices across the board remain favorable with the exception of timber related products which remain relatively low but did show some improvement in the first quarter of 2012. Southeastern Georgia has seen a substantial increase in facilities utilizing pulp products primarily related to wood pellet production and this has strengthened the pulp market. Chip-n-saw pine timber prices increased slightly in the first quarter of 2012 following seven straight quarterly declines but still remain at low levels. Lumber prices have strengthened with the southern pine composite price increasing 6.3 percent over March 2011 and up almost 20 percent from December 2011 rising from $251/MBF to $302/MBF at the end of March 2012 according to Timber Mart South data. Area sawmills are operating at higher profit margins at the present time than in recent years.

Housing starts through February 2012 (95,000) increased 30 percent over same period in 2010 giving support to increased lumber prices.

Moderating feed cost, primarily corn prices, along with increases in meat prices have improved margins for poultry integrators and most are operating profitably during the first quarter. High energy input costs are going to reduce profit margins even with favorable commodity prices.

The general economy in Georgia remains sluggish. Unemployment as of February 2012 had dropped to 9.1 percent from 9.9 percent one year ago. While Georgia saw a drop of 0.8 percent during this period, Florida, Alabama, South Carolina, and Texas saw decreases in the 1.4 percent range.

There does continue to be increased economic activity around Georgia's ports and Caterpillar recently announced the opening of a new manufacturing facility in Clark and Oconee Counties at a cost of $200 million. The facility is expected to employee 1,400 full-time workers when completed and will have a positive economic impact within our service area.

Loan demand within the full-time farm sector has been very strong during the first quarter. The Association has increased its market share within the full-time farm market primarily by providing crop operating loans to many new customers. Loan demand outside our full-time farm market is also showing some signs of recovery with increased activity in our West Georgia offices that serve more part-time farm markets.

South Carolina Region

The South Carolina jobless rate fell to 9.1 percent in February 2012 and compares favorably with the rate a year earlier when unemployment was 10.5 percent. Still, the state's unemployment rate is 0.8 percent higher than the national level for early 2012.

Economically, fuel prices remain a significant concern globally. As of the end of the first quarter, South Carolina gas prices were 21 cents lower per gallon than the national average price, while diesel fuel for the state is 18 cents lower than average national prices. Fuel prices impact both personal household finances and the profit margins returned for commercial operations, including agricultural operations. With this fact to consider, oil prices will be monitored closely during 2012 as the impact of fuel costs is significant.

South Carolina appears to be faring better than most states across a wide range of economic measures tied to its economy and fiscal health of its state government. The Federal Funds Information for States (FFIS) ranked the South Carolina economic recovery in the top quarter of all states in the nation during the most recent recession. In addition, the same organization reported the state is just one of eleven in the country that ended the previous fiscal year with reserves totaling at least 10 percent of its general fund spending during the fiscal year. The State Budget and Control Board reports the general fund grew by 6.4 percent for the previous fiscal year and forecasts a 3 percent increase over the current fiscal year that ends June 30. The FFIS reports that "a state that is building reserves has restored balances to its budget and is on a path to recovery" in reflecting on South Carolina.

With the improvement noted in the state's economy, the employment landscape has changed in South Carolina. A recent survey by ManpowerGroup, an employment services firm, recently forecast the Greenville-Mauldin-Easley area of the state to be one of the most optimistic metropolitan areas in the country for 2012 spring hiring. The Greenville area has long been known for reliance upon textile manufacturing, but today the area has transitioned to be better known for engineering. Greenville and its adjoining communities are now home to more international manufacturing investment per capita than any other community in the United States. This serves as just one example of how the economic landscape within the state is changing.

The AgSouth portfolio for the region continues to be significantly diversified with a significant percentage of the region's loans paid from nonfarm sources, the general economy continues to be monitored closely as to determine the impact upon future portfolio performance.

South Carolina's agricultural economy continues to perform well. Most regions of the state have recorded temperatures well above normal. But, after a dry winter, the region has received much needed rainfall during the latter portion of the first quarter and leading up to seasonal planting and the spring growing cycle. Overall, the weather conditions as the quarter ended remained favorable for most agricultural commodities.

As the first quarter ended, winter wheat and oats were 30 percent headed and rated 95 and 98 percent fair to excellent in condition, respectively. Corn plantings were far ahead of schedule at 54 percent, and vegetable and fruit plantings have increased steadily due to the warm conditions. USDA also reports pasture conditions as 90 percent fair to good along with livestock conditions rated 99 percent fair to excellent.

In the South Carolina part of the territory, poultry continues to represent the largest commodity concentration repaid from an agricultural source. Broiler integrators operating within South Carolina appear to be operating profitably, and USDA data appears to support that efforts have been made to reduce broiler hatches. Between December 2011 and January 2012 chicks hatched were down. Feed costs remain a significant variable for integrators as grain has remained expensive compared to historical levels, and, accordingly, this is a major component of financial management for the integrators. Some new broiler and turkey house construction has been observed in areas of the region.

Timber prices continue to remain low compared to historical levels for the timberland owner, but recently prices at the processing mills have showed some improvement. The improvement noted relates to the weather conditions previously discussed. With the mild winter and early spring-like conditions, more repairs, remodeling, and construction earlier in the year have led to some marginal increase in use of processed forestry products. Ultimately, this has corresponded to slightly better profit margins which are needed within the forest products industry.

South Carolina continues to recognize agribusiness, a combination of agriculture and forestry, as making the largest economic impact among industries in the state. Recently, as an acknowledgement of the importance of agribusiness within the state, the South Carolina General Assembly appropriated funding for the South Carolina Commerce Department and South Carolina Department of Agriculture to jointly recruit agribusiness firms to the state and to establish new agribusinesses within the state. The first step in the agribusiness economic development process was to hire a project manager, and the two departments have concluded this process. At this point, the state is positioned to actively and positively promote a business climate for agribusinesses to relocate to South Carolina and for existing South Carolina agribusinesses to further develop and expand.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2012, was $1,454,637, a decrease of $37,930 or 2.54 percent as compared to $1,492,567 at December 31, 2011. Net loans outstanding at March 31, 2012 were $1,444,984 as compared to $1,482,667 at December 31, 2011. Net loans accounted for 93.60 percent of total assets at March 31, 2012, as compared to 92.72 percent of total assets at December 31, 2011.

The decrease in gross and net loan volume during the reporting period is attributed to payments and payoffs on loans in excess of advances on new or existing operating lines. 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, 2011, the Association held Investment securities totaling $8,769. These investments are Rural America bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At March 31, 2012, Investment securities totaled $4,256, a decrease of $4,513. The 51.47 percent decrease is from a significant liquidation of one investment security 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 decreased from $34,885 at December 31, 2011, to $33,668 at March 31, 2012. This decrease is the result of the workout of nonaccrual accounts, either through liquidations, returning them to accrual status, or transferring them to other property owned. 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 decreased to $16,047 at March 31, 2012 from $16,380 at December 31, 2011. The decrease of $333 or 2.03 percent in other property owned is the result of the sale or write down of several pieces of property taken during the reporting period exceeding any acquisitions. The Association still holds several 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 March 31, 2012, was $9,653 compared to $9,900 at December 31, 2011, 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 March to review the allowance account. The ALCO determined that an addition to the allowance account was not needed at this time.

Premises and equipment, net decreased $142 from $15,987 at December 31, 2011 to $15,845 at March 31, 2012. The slight decrease is the result of normal activity within the premises and equipment accounts for the quarter.

The amount Due from AgFirst Farm Credit Bank decreased $11,349 from $13,964 at December 31, 2011 to $2,615 at March 31, 2012. This line item includes the accrual of patronage income year to date from AgFirst to the Association. As of March 31, 2012 only one quarter of accrual had occurred.

RESULTS OF OPERATIONS

For the three months ended March 31, 2012

Net income for the three months ended March 31, 2012, totaled $10,430 as compared to $8,022 for the same period in 2011. This is an increase of $2,408 or 30.01 percent. The commentary below explains the variance.

At March 31, 2012, interest income decreased $1,391 compared to the same period in 2011. The decrease was due to the decrease in interest income on loans, 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 $176 for the three months ended March 31, 2012, as compared to $211 for the same period in 2011.

Interest expense decreased $1,598 for the three months ended March 31, 2012. The decrease is tied to a combination of the lower loan volume, 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 $207 for the three months ended March 31, 2012, as compared to the same period in 2011 due primarily to the increase in margin on new and existing loan volume. Net interest income after the provision for loan losses increased $1,788 in the quarter ending March 31, 2012. The significant increase can be tied to the provision entry made in 2011, but not in 2012.

No provision for loan loss was recorded for the quarter ending March 31, 2012. A provision of $1,581 was recorded for the quarter ending March 31, 2011. The Association's ALCO made the decision that a provision entry for the quarter ending March 31, 2012 was not 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 increased $247 over the same period last year. Loan fees increased $466 or 48.39 percent. The increase in fees is tied to loan servicing activity during the period and the collection of a significant fee on one specialized account at liquidation. Fees for financially related services increased $145 from $176 at March 31, 2011 compared to $321 at March 31, 2012. The increase of 82.39 percent is the increase in commissions on the sale of multi-peril insurance and commissions earned on leasing.

The patronage refunds from other Farm Credit institutions decreased $193 from $2,914 at March 31, 2011 to $2,721 at March 31, 2012. This is a decrease of 6.62 percent and is tied to the lower Notes Payable balance at AgFirst Farm Credit Bank.

In the three months ending March 31, 2012, the Association experienced losses on the sale of Other Property Owned in the amount of $282. During the same period of 2011, the Association booked losses on the sale of Other Property Owned of $136. The losses were an accumulation of write downs on several pieces of Other Property Owned held by the Association as well as losses recorded at the time of the sale. Some pieces are under contract for 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 $60 from $382 at March 31, 2011 compared to $322 at March 31, 2012. The decrease in gains is the result of the decrease in originations between the two reporting periods and the slight decrease in fees earned on origination due to competition.

Gains on the sale of premises and equipment were $6 for the period ending March 31, 2011. No sales occurred during the same period in 2012. The Association has one unoccupied building for sale in Covington, Georgia that is currently under contract.

Other noninterest income increased from $176 at March 31, 2011 to $217 at March 31, 2012. Other noninterest income includes savings from the Farm Credit System Insurance Corporation (FCSIC) and other miscellaneous income items. In 2012 the FCSIC savings were $147, while in 2011, the savings were $104.

Noninterest expense for the three months ended March 31, 2012, decreased $366 or 4.32 percent when compared to the same period of 2011. Salaries and employee benefit expense decreased $231 between the two reporting periods. The decrease in salaries and employee benefits is tied to lower commissions paid to mortgage loan originators due to fewer originations and lower benefit costs for health care for retirees. The Association also deferred more personnel costs under accounting standard ASC 310-20 (previously FAS 91), related to loan originations between the two reporting periods.

Occupancy and equipment expense at March 31, 2012 was $568 compared to $576 for the same period in 2011. The decrease is from some timing differences as it relates to property insurance expense and maintenance issues.

The Insurance Fund premium decreased $37 from $187 at March 31, 2011 to $150 at March 31, 2012. The current premium on accruing loans is 5 basis points and 10 basis points for nonaccrual loans.

Other operating expenses decreased $90 from $1,570 at March 31, 2011, compared to $1,480 at March 31, 2012. The decrease of 5.73 percent is attributed to timing differences in the payment of some training, advertising and public relations expenses, and a decrease in fees placed in the Farmer Mac in-portfolio guarantee program. These lower expenses were slightly offset by the 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.

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 March 31, 2012 was $1,249,965 as compared to $1,311,486 at December 31, 2011. The decrease is related to the decrease in loan volume between the two reporting periods.

As of March 31, 2012, the Association had invested $20,000 of its lendable equity in fixed rate notes. These fixed rate notes have maturities in January 2013.

CAPITAL RESOURCES

Total members' equity at March 31, 2012 increased by $10,435 to $263,048 from the December 31, 2011 total of $252,613. The increase is primarily attributed to the increase in earnings of the Association offset by the revolvement of allocated equities and the retirement of capital stock and participation certificates during the reporting period. At December 31, 2011, allocated retained earnings totaled $113,878. At March 31, 2012, the allocated retained earnings had increased to $113,893. Unallocated equities increased $10,400 from $132,426 at December 31, 2011 to $142,826 at March 31, 2012. The increase is the result of earnings retained for capital purposes at year end 2011.

Total capital stock and participation certificates were $6,831 on March 31, 2012, compared to $6,783 on December 31, 2011. 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 March 31, 2012, the Association's total surplus ratio and core surplus ratio were 16.72 percent and 11.08 percent, respectively, and the permanent capital ratio was 17.21 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 March 31, 2012, the Association had loans totaling $39,807 in this program. The cost of the guarantees year to date was $54. The use of the Farmer Mac in-portfolio guarantee has a positive effect on the Association's capital ratios.

At December 31, 2011, the Association's permanent capital ratio was 15.98 percent. The increase to 17.21 percent permanent capital at March 31, 2012 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, as needed, should management and the Board determine that steps are necessary to maintain the Association's strong capital position.

REGULATORY MATTERS

For the three months ended March 31, 2012, the FCA took no enforcement action against the Association.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2011 Annual Report to Shareholders for recently issued accounting pronouncements.

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

(dollars in thousands)	**March 31, 2012** *(unaudited)*	**December 31, 2011** *(audited)*
Assets		
Cash	$ 3,820	$ 2,455
Investment securities:		
Held to maturity (fair value of $4,134 and $9,111 respectively)	4,256	8,769
Loans	1,454,637	1,492,567
Less: allowance for loan losses	9,653	9,900
Net loans	1,444,984	1,482,667
Loans held for sale	2,427	907
Accrued interest receivable	13,623	16,063
Investments in other Farm Credit institutions	27,038	27,120
Premises and equipment, net	15,845	15,987
Other property owned	16,047	16,380
Due from AgFirst Farm Credit Bank	2,615	13,964
Other assets	13,129	14,736
Total assets	$ 1,543,784	$ 1,599,048
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,249,965	$ 1,311,486
Accrued interest payable	2,939	3,115
Patronage refunds payable	612	8,625
Other liabilities	27,220	23,209
Total liabilities	1,280,736	1,346,435
Commitments and contingencies		
Members' Equity		
Protected borrower stock	81	104
Capital stock and participation certificates	6,750	6,679
Retained earnings		
Allocated	113,893	113,878
Unallocated	142,826	132,426
Accumulated other comprehensive income (loss)	(502)	(474)
Total members' equity	263,048	252,613
Total liabilities and members' equity	$ 1,543,784	$ 1,599,048

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2012	2011
Interest Income		
Investment securities	$ 112	$ 181
Loans	22,541	23,863
Total interest income	22,653	24,044
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	8,839	10,293
Other	3	147
Total interest expense	8,842	10,440
Net interest income	13,811	13,604
Provision for loan losses	—	1,581
Net interest income after provision for loan losses	13,811	12,023
Noninterest Income		
Loan fees	1,429	963
Fees for financially related services	321	176
Patronage refunds from other Farm Credit institutions	2,721	2,914
Gains (losses) on other property owned, net	(282)	(136)
Gains (losses) on sales of rural home loans, net	322	382
Gains (losses) on sales of premises and equipment, net	—	6
Other noninterest income	217	176
Total noninterest income	4,728	4,481
Noninterest Expense		
Salaries and employee benefits	5,915	6,146
Occupancy and equipment	568	576
Insurance Fund premiums	150	187
Other operating expenses	1,480	1,570
Total noninterest expense	8,113	8,479
Income before income taxes	10,426	8,025
Provision (benefit) for income taxes	(4)	3
Net income	$ 10,430	$ 8,022

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2012	2011
Net income	$ 10,430	$ 8,022
Other comprehensive income net of tax		
Employee benefit plans adjustments	(28)	(21)
Comprehensive income	$ 10,402	$ 8,001

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2010	$ 152	$ 6,525	$ 115,860	$ 124,660	$ (308)	$ 246,889
Comprehensive income				8,022	(21)	8,001
Protected borrower stock retired	(43)					(43)
Capital stock/participation certificates issued/(retired), net		48				48
Retained earnings retired			(4)			(4)
Patronage distribution adjustment			(1,699)	2,429		730
Balance at March 31, 2011	$ 109	$ 6,573	$ 114,157	$ 135,111	$ (329)	$ 255,621
Balance at December 31, 2011	$ 104	$ 6,679	$ 113,878	$ 132,426	$ (474)	$ 252,613
Comprehensive income				10,430	(28)	10,402
Protected borrower stock retired	(23)					(23)
Capital stock/participation certificates issued/(retired), net		71				71
Retained earnings retired			(6)			(6)
Patronage distribution adjustment			21	(30)		(9)
Balance at March 31, 2012	$ 81	$ 6,750	$ 113,893	$ 142,826	$ (502)	$ 263,048

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, 2011, are contained in the 2011 Annual Report to Shareholders. These unaudited first quarter 2012 consolidated financial statements should be read in conjunction with the 2011 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 three months ended March 31, 2012, are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

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 March 31, 2012, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, "Comprehensive Income (Topic 220): 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. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). 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 did not impact the Association's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral is effective at the same time the new standard on comprehensive income is adopted.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): 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. The adoption of this guidance did not impact the Association's financial condition or results of operations, but resulted in additional disclosures.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): 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, 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.

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): 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. The adoption of this guidance had no material impact on the Association's financial condition and results of operations but resulted in significant additional disclosures.

Other recently issued accounting pronouncements are discussed in the 2011 Annual Report to Shareholders.

NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at March 31, 2012 and December 31, 2011 follows:

	March 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 4,256	$ –	$ (122)	$ 4,134	6.34%

	December 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 8,769	$ 424	$ (82)	$ 9,111	4.07%

A summary of the expected maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2012 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	4,256	4,134	6.34
Total	$ 4,256	$ 4,134	6.34 %

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 following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at March 31, 2012 and December 31, 2011:

	March 31, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 4,134	$ (122)	$ –	$ –

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 4,206	$ (82)	$ –	$ –

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.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding at period end were as follows:

	March 31, 2012	December 31, 2011
Real estate mortgage	$ 1,172,258	$ 1,174,297
Production and intermediate-term	225,920	258,417
Agribusiness		
Loans to cooperatives	109	39
Processing and marketing	10,777	13,482
Farm-related business	10,326	10,522
Total agribusiness	21,212	24,043
Rural residential real estate	34,991	35,551
Other	256	259
Total Loans	$ 1,454,637	$ 1,492,567

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. Participations purchased and sold balances at period end were as follows:

	March 31, 2012							
	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	$ 700	$ 115,393	$ –	$ 3,347	$ –	$ –	$ 700	$ 118,740
Production and intermediate-term	458	70,937	2,477	3,998	1,104	(67)	4,039	74,868
Agribusiness								
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	2,757	22,039	239	–	–	–	2,996	22,039
Total agribusiness	2,757	22,039	239	–	–	–	2,996	22,039
Total	$ 3,915	$ 208,369	$ 2,716	$ 7,345	$ 1,104	$ (67)	$ 7,735	$ 215,647

	December 31, 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	$ 781	$ 115,914	$ –	$ 3,022	$ –	$ –	$ 781	$ 118,936
Production and intermediate-term	580	81,344	2,742	3,998	1,166	(53)	4,488	85,289
Agribusiness								
Processing and marketing	3,024	22,645	292	–	–	–	3,316	22,645
Total agribusiness	3,024	22,645	292	–	–	–	3,316	22,645
Total	$ 4,385	$ 219,903	$ 3,034	$ 7,020	$ 1,166	$ (53)	$ 8,585	$ 226,870

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 March 31, 2012 and indicates that approximately 12.59 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	$ 82,259	$ 263,396	$ 826,603	$ 1,172,258
Production and intermediate-term	90,120	101,688	34,112	225,920
Agribusiness				
Loans to cooperatives	–	39	70	109
Processing and marketing	5,176	4,977	624	10,777
Farm-related business	1,193	6,033	3,100	10,326
Total agribusiness	6,369	11,049	3,794	21,212
Rural residential real estate	4,326	5,970	24,695	34,991
Other	–	–	256	256
Total Loans	$ 183,074	$ 382,103	$ 889,460	$ 1,454,637

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.

	March 31, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	94.18%	94.45%
OAEM	3.93	3.71
Substandard/doubtful/loss	1.89	1.84
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	81.90%	83.32%
OAEM	7.83	7.54
Substandard/doubtful/loss	10.27	9.14
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	83.02%	86.40%
OAEM	–	–
Substandard/doubtful/loss	16.98	13.60
	100.00%	100.00%

	March 31, 2012	December 31, 2011
Farm-related business:		
Acceptable	99.42%	91.77%
OAEM	0.57	8.22
Substandard/doubtful/loss	0.01	0.01
	100.00%	100.00%
Total agribusiness:		
Acceptable	91.10%	88.76%
OAEM	0.28	3.58
Substandard/doubtful/loss	8.62	7.66
	100.00%	100.00%
Rural residential real estate:		
Acceptable	92.45%	92.31%
OAEM	2.32	2.59
Substandard/doubtful/loss	5.23	5.10
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	92.19%	92.37%
OAEM	4.44	4.35
Substandard/doubtful/loss	3.37	3.28
	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest.

	March 31, 2012					
	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	$ 5,428	$ 4,397	$ 9,825	$ 1,173,377	$ 1,183,202	$ –
Production and intermediate-term	1,559	18,406	19,965	208,312	228,277	–
Agribusiness						
Loans to cooperatives	–	–	–	111	111	–
Processing and marketing	–	–	–	10,836	10,836	–
Farm-related business	–	1	1	10,418	10,419	–
Total agribusiness	–	1	1	21,365	21,366	–
Rural residential real estate	589	1,260	1,849	33,321	35,170	–
Other	–	–	–	258	258	–
Total	$ 7,576	$ 24,064	$ 31,640	$ 1,436,633	$ 1,468,273	$ –

	December 31, 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	$ 6,275	$ 5,796	$ 12,071	$ 1,173,903	$ 1,185,974	$ –
Production and intermediate-term	10,743	8,745	19,488	242,871	262,359	–
Agribusiness						
Loans to cooperatives	–	–	–	40	40	–
Processing and marketing	–	–	–	13,690	13,690	–
Farm-related business	223	–	223	10,370	10,593	–
Total agribusiness	223	–	223	24,100	24,323	–
Rural residential real estate	502	1,433	1,935	33,789	35,724	30
Other (including mission-related)	–	–	–	260	260	–
Total	$ 17,743	$ 15,974	$ 33,717	$ 1,474,923	$ 1,508,640	$ 30

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 period end were as follows:

	March 31, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 9,373	$ 9,380
Production and intermediate-term	22,650	23,722
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	1	1
Total agribusiness	1	1
Rural residential real estate	1,644	1,782
Total nonaccrual loans	$ 33,668	$ 34,885
Accruing restructured loans:		
Real estate mortgage	$ 4,632	$ 11,784
Production and intermediate-term	1,465	1,482
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	49
Total agribusiness	–	49
Rural residential real estate	–	–
Total accruing restructured loans	$ 6,097	$ 13,315
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	–	30
Total accruing loans 90 days or more past due	$ –	$ 30
Total nonperforming loans	$ 39,765	$ 48,230
Other property owned	16,047	16,380
Total nonperforming assets	$ 55,812	$ 64,610
Nonaccrual loans as a percentage of total loans	2.31%	2.34%
Nonperforming assets as a percentage of total loans and other property owned	3.79%	4.28%
Nonperforming assets as a percentage of capital	21.22%	25.58%

The following table presents information relating to impaired loans (including accrued interest) at period end. 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.

	March 31, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 7,867	$ 7,863
Past due	25,801	27,022
Total impaired nonaccrual loans	33,668	34,885
Impaired accrual loans:		
Restructured	6,097	13,315
90 days or more past due	–	30
Total impaired accrual loans	6,097	13,345
Total impaired loans	$ 39,765	$ 48,230

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

	March 31, 2012			Quarter Ended March 31, 2012	
	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	$ 1,862	$ 2,024	$ 352	$ 2,114	$ 10
Production and intermediate-term	16,137	19,019	3,847	18,321	86
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Processing and marketing	–	67	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	67	–	–	–
Rural residential real estate	1,399	1,403	589	1,588	7
Total	$ 19,398	$ 22,513	$ 4,788	$ 22,023	$ 103
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 12,143	$ 15,146	$ –	$ 13,787	$ 65
Production and intermediate-term	7,978	9,254	–	9,057	42
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Processing and marketing	–	–	–	–	–
Farm-related business	1	25	–	1	–
Total agribusiness	1	25	–	1	–
Rural residential real estate	245	288	–	278	2
Total	$ 20,367	$ 24,713	$ –	$ 23,123	$ 109
Total impaired loans:					
Real estate mortgage	$ 14,005	17,170	352	$ 15,901	$ 75
Production and intermediate-term	24,115	28,273	3,847	27,378	128
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Processing and marketing	–	67	–	–	–
Farm-related business	1	25	–	1	–
Total agribusiness	1	92	–	1	–
Rural residential real estate	1,644	1,691	589	1,866	9
Total	$ 39,765	$ 47,226	$ 4,788	$ 45,146	$ 212

	December 31, 2011			Year Ended December 31, 2011	
	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	$ 1,463	$ 1,608	$ 263	$ 1,068	$ 33
Production and intermediate-term	16,555	19,401	3,944	12,077	372
Agribusiness					
Processing and marketing	–	67	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	67	–	–	–
Rural residential real estate	1,144	1,117	580	835	26
Total	$ 19,162	$ 22,193	$ 4,787	$ 13,980	$ 431
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 19,701	$ 22,755	$ –	$ 14,372	$ 443
Production and intermediate-term	8,649	10,038	–	6,310	195
Agribusiness					
Processing and marketing	–	–	–	–	–
Farm-related business	49	74	–	36	1
Total agribusiness	49	74	–	36	1
Rural residential real estate	669	753	–	488	15
Total	$ 29,068	$ 33,620	$ –	$ 21,206	$ 654
Total impaired loans:					
Real estate mortgage	$ 21,164	$ 24,363	$ 263	$ 15,440	$ 476
Production and intermediate-term	25,204	29,439	3,944	18,387	567
Agribusiness					
Processing and marketing	–	67	–	–	–
Farm-related business	49	74	–	36	1
Total agribusiness	49	141	–	36	1
Rural residential real estate	1,813	1,870	580	1,323	41
Total	$ 48,230	$ 55,813	$ 4,787	$ 35,186	$ 1,085

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 March 31, 2012.

A summary of changes in the allowance for loan losses and recorded investment in loans at period end were as follows:

	March 31, 2012					
	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Other	Total
Allowance for credit losses:						
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
Charge-offs	(153)	(145)	–	–	–	(298)
Recoveries	43	8	–	–	–	51
Provision for loan losses	100	(92)	(12)	4	–	–
Balance at March 31, 2012	$ 4,272	$ 4,604	$ 71	$ 705	$ 1	$ 9,653
March 31, 2012 allowance ending balance:						
Loans individually evaluated for impairment	$ 352	$ 3,847	$ –	$ 589	$ –	$ 4,788
Loans collectively evaluated for impairment	$ 3,920	$ 757	$ 71	$ 116	$ 1	$ 4,865
Recorded investment in loans outstanding:						
Ending Balance at March 31, 2012	$ 1,183,202	$ 228,277	$ 21,366	$ 35,170	$ 258	$ 1,468,273
March 31, 2012 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 9,338	$ 22,608	$ –	$ 1,638	$ –	$ 33,584
Loans collectively evaluated for impairment	$ 1,173,864	$ 205,669	$ 21,366	$ 33,532	$ 258	$ 1,434,689

	December 31, 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	(4,234)	(4,590)	(147)	(62)	–	(9,033)
Recoveries	505	289	4	21	–	819
Provision for loan losses	1,589	7,510	(10)	524	1	9,614
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
December 31, 2011 allowance ending balance:						
Loans individually evaluated for impairment	$ 263	$ 3,944	$ –	$ 580	$ –	$ 4,787
Loans collectively evaluated for impairment	$ 4,019	$ 889	$ 83	$ 121	$ 1	$ 5,113
Recorded investment in loans outstanding:						
Ending Balance at December 31, 2011	$ 1,185,974	$ 262,359	$ 24,323	$ 35,724	$ 260	$ 1,508,640
December 31, 2011 recorded investment ending balance:						
Loans individually evaluated for impairment	$ 9,236	$ 22,799	$ 1	$ 1,768	$ –	$ 33,804
Loans collectively evaluated for impairment	$ 1,176,738	$ 239,560	$ 24,322	$ 33,956	$ 260	$ 1,474,836

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented, related to TDRs. The table does not include purchased credit impaired loans.

	Three months ended March 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,461	$ 141	$ –	$ 1,602
Total	$ 1,461	$ 141	$ –	$ 1,602

	Three months ended March 31, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 1,454	$ 141	$ –	$ 1,595	$ –	$ –
Total	$ 1,454	$ 141	$ –	$ 1,595	$ –	$ –

	Three months ended March 31, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 609	$ 753	$ –	$ 1,362
Production and intermediate-term	410	20	–	430
Rural residential real estate	295	–	–	295
Total	$ 1,314	$ 773	$ –	$ 2,087

	Three months ended March 31, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 609	$ 753	$ –	$ 1,362	$ –	$ –
Production and intermediate-term	399	20	–	419	–	–
Rural residential real estate	295	–	–	295	–	–
Total	$ 1,303	$ 773	$ –	$ 2,076	$ –	$ –

Interest concessions include interest forgiveness and interest deferment. Principal concessions include principal forgiveness, principal deferment, and maturity extension. Other concessions include additional compensation received which might be in the form of cash or other assets.

The following table presents information regarding TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the first quarter of 2012. Payment default is defined as a payment that was thirty days or more past due.

	Outstanding Recorded Investment at March 31, 2012
Defaulted troubled debt restructurings:	
Real estate mortgage	$ 25
Production and intermediate-term	599
Agribusiness	
Farm-related business	1
Total	$ 625

TDRs outstanding at period end totaled $18,079, of which $11,982 were in nonaccrual status.

NOTE 4 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31, 2012	2011
Pension	$ 1,593	$ 1,565
401(k)	131	118
Other postretirement benefits	211	270
Total	$ 1,935	$ 1,953

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

	Actual YTD Through 3/31/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ 21	$ 4,885	$ 4,906
Other postretirement benefits	188	547	735
Total	$ 209	$ 5,432	$ 5,641

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, 2012.

Further details regarding employee benefit plans are contained in the 2011 Annual Report to Shareholders.

NOTE 5 — FAIR VALUE MEASUREMENT

FASB guidance defines fair value, establishes a framework for measuring fair value and requires fair value disclosures for certain assets and liabilities measured at fair value on a recurring and nonrecurring 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.

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 6.81 percent of the issued stock of the Bank as of March 31, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $123 million for the first three months of 2012. In addition, the Association has an investment of $3,271 related to other Farm Credit institutions.

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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 March 31, 2012 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. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

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 March 31, 2012.

The carrying value of accrued interest approximates its fair value.

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 March 31, 2012 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.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. 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 values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves (see Level 3 below).

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. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

For investment securities, the fair value is determined by discounting the expected future cash flows using extrapolated interest rates for similar assets.

Other property owned is classified as a level 3 asset at March 31, 2012. The fair value 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. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For 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; therefore, the related credit risk is not significant.

Information about Sensitivity to Changes in Significant Unobservable Inputs

For certain recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Other fair value measurements may use contractual payments and a risk adjusted discount rate, which is generated using the Association's 14-point risk rating scale. An increase in risk rating will generally produce a lower fair value measurement.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2012 and 2011. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first three months of 2012 and 2011.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 7
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(2)
Transfers in and/or out of level 3	–
Balance at March 31, 2012	$ 5

	Standby Letters Of Credit
Balance at January 1, 2011	$ 78
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income (loss)	–
Purchases	–
Sales	–
Issuances	–
Settlements	(60)
Transfers in and/or out of level 3	–
Balance at March 31, 2011	$ 18

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	Appraisal	Income and expense	*
		Comparable sales	*
		Replacement costs	*
		Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility
Investment securities, held-to-maturity	Discounted cash flow	Probability of default Risk adjusted discount rate
Accrued interest	Carrying value	Coupon interest rates
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility

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 following table presents the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as, those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

	March 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 700	$ 700	$ –	$ –	$ 700	$ 34
Recurring Assets	$ 700	$ 700	$ –	$ –	$ 700	$ 34
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	$ –
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 34,977	$ –	$ –	$ 34,977	$ 34,977	$ (247)
Other property owned	16,047	–	–	18,277	18,277	(279)
Nonrecurring Assets	$ 51,024	$ –	$ –	$ 53,254	$ 53,254	$ (526)
Other Financial Instruments						
Assets:						
Cash	$ 3,820	$ 3,820	$ –	$ –	$ 3,820	
Investment securities, held-to-maturity	4,256	–	–	4,134	4,134	
Loans	1,412,434	–	–	1,428,771	1,428,771	
Accrued interest receivable	13,623	–	13,623	–	13,623	
Other Assets	$ 1,434,133	$ 3,820	$ 13,623	$ 1,432,905	$ 1,450,348	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,249,965	$ –	$ –	$ 1,255,737	$ 1,255,737	
Accrued interest payable	2,939	–	2,939	–	2,939	
Other Liabilities	$ 1,252,904	$ –	$ 2,939	$ 1,255,737	$ 1,258,676	

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

	December 31, 2011			
	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Assets held in trust funds	$ 682	$ –	$ –	$ 682
Total Assets	$ 682	$ –	$ –	$ 682
Liabilities:				
Standby letters of credit	$ –	$ –	$ 7	$ 7
Total Liabilities	$ –	$ –	$ 7	$ 7

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2011 for each of the fair value hierarchy values are summarized below.

	December 31, 2011				
	Level 1	Level 2	Level 3	Total Fair Value	YTD Total Gains (Losses)
Assets:					
Impaired Loans	$ –	$ –	$ 14,375	$ 14,375	$ (12,130)
Other Property Owned	$ –	$ –	$ 16,958	$ 16,958	$ (1,835)

The estimated fair values of the Association's financial instruments at December 31, 2011 are as follows:

	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash	$ 2,455	$ 2,455
Investment securities	$ 8,769	$ 9,111
Loans, net of allowance	$ 1,483,574	$ 1,507,959
Accrued interest receivable	$ 16,063	$ 16,063
Assets held in trust funds	$ 682	$ 682
Financial liabilities:		
Notes payable to AgFirst Farm Credit Bank	$ 1,314,601	$ 1,326,042

NOTE 6 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in components of Accumulated Other Comprehensive Income are as follows:

	Employee Benefit Plans	
Balance at December 31, 2010	$	(308)
Other comprehensive income		(21)
Balance at March 31, 2011	$	(329)
Balance at December 31, 2011	$	(474)
Other comprehensive income		(28)
Balance at March 31, 2012	$	(502)

	For the three months ended March 31, 2012		2011	
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$	15	$	6
Net gain (loss) during period		(43)		(27)
Defined benefit post retirement plans, net	$	(28)	$	(21)

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined that, except as described below, there are none requiring disclosure through May 9, 2012, which is the date the financial statements were issued.

In April 2012, the Association accrued $1.6 million due to an insurance premium refund from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.