AgSouth Farm Credit, ACA

SECOND QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 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

August 8, 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 June 30, 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 June 30, 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 June 30, 2012.

William P. Spigener

William P. Spigener
Chief Executive Officer

Alisa D. Gunter

Alisa D. Gunter
Chief Financial Officer

August 8, 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 June 30, 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 $1,238,088 or 82.90 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 second quarter of 2012 the Association originated $34,489 in loans for the secondary market. Originations at the same period 2011 were $21,454. The 60.76 percent increase is the result of improved market conditions. Rates continue to remain low, which is beneficial to qualifying customers. As of June 30, 2012, the Association held $1,471 in qualifying loans for sale.

Georgia Region

The agriculture sector within AgSouth's Georgia region continued to experience reasonably favorable conditions during second quarter 2012. The southeast region received beneficial rains from tropical depressions moving through the area which curbed the dry conditions during the early part of the growing season. The mid-section of the state served by the Association still remains very dry. This is not a heavy row crop region; however, most row crop land is located in the southeast region of our territory. Additional rains will be needed throughout the state as crops enter critical growing stages and are being stressed by very high temperatures.

Corn plantings in Georgia are down slightly, 3 percent, from 2011 with most planted under irrigation and yields are expected to be fairly good with 92 percent of the crop rated fair to excellent by USDA's July 9, 2012 crop condition report. Cotton plantings are actually down 22 percent across Georgia from 2011 due primarily to prices which fell fairly dramatically in the early part of the planting season. This shifted many cotton acres into peanuts and soybeans. Peanuts planted in Georgia are up 49 percent over 2011 and soybean acreage is up 23 percent over 2011.

Corn and soybean prices have jumped up fairly significantly over the past 30 days given national yield expectations resulting from very dry conditions in the Midwest. Corn is back in the $7.50/bu. range, up over $2.00 per bushel in the past 60 days and soybeans have pushed up into the $16.00/bu. range. While good for row crop producers, these price increases will place huge strains on the poultry and pork industries to maintain profitability with much higher feed cost.

The sweet onion and blueberry crops which are just finishing up their 2012 season are expected to be average. Blueberry production was effected by February freezes which hurt high bush production; however, prices were favorable. Growers able to get a large percentage of their crop sold in the fresh market should be in much better shape than those growers who had rain late in the season which resulted in a poorer quality berry and lower prices. Onion yields were on average down by approximately 25 percent due to disease, but prices were generally at profitable levels and are expected to average $14-$16 per 40 lb equivalent. This should result in a profitable year for most producers.

According to the Random Lengths Framing Lumber Composit Index, timber and lumber markets, which had been strengthening during the first quarter and into the second quarter, fell about 4 percent in June. This still remains 22 percent above prices of June 2011. Additional demand has been created for pulpwood in this area with the construction of several fairly large wood pellet mills.

Milk prices, which were favorable in 2011, dropped during the first quarter of 2012 from the $22-$24 per hundred weight down to the $18.00cwt range. Prices have moved back up approximately $2 cwt over the past 30 days.

Unemployment in Georgia as of May 2012 was at 8.9 percent above the national average of 8.2 percent, but almost a percentage point better than May 2011 when it was 9.8 percent. Georgia's PMI index, a reading of economic activity in the manufacturing sector, fell 6.9 percent to 55 in June. A PMI above 50 indicates manufacturing activity is expanding and a reading below 50 indicates contraction. Georgia's PMI is still positive and above the national average PMI of 49. The drop in the previous two months does indicate the rate of manufacturing expansion in the state is slowing.

Georgia's deepwater ports are setting records for the number of tons of cargo passing through the ports in Savannah and Brunswick. Automobiles and heavy equipment account for a high percentage of this cargo and much of it is produced in Georgia and other regions of the southeast. A University of Georgia study indicates the two deep water ports account for 352,146 jobs across the state and the ports have a $66.9 billion impact on the state's economy. There is currently a $652 million deepening project underway at the Savannah port taking it from 42 feet to 47 feet. This will greatly increase the ports already high capacity for handling both imports and exports of all types of cargo including many of the southeast agricultural export products. It will also increase general economic activity along the coastal corridor of Georgia which will benefit our service area. Final approvals are expected later this year.

Land values appear to be stabilizing in both farm and timberland. Open farm land has actually seen an increase in the 10-15 percent range over the past year and timberland has stabilized. The Association has been able to move much of its Other Property Owned at or near its book value and the rate of private party sales of this OPO has increased over the past 6 months.

South Carolina Region

From an agricultural perspective, most of the Spring 2012 was very dry and hot in South Carolina, but fortunately as late spring and early summer approached, much needed rainfall and somewhat milder temperatures surfaced. These growing conditions allowed for a good start to the field crop growing season. The corn crop in South Carolina is maturing rapidly and 75 percent of the crop is rated good to excellent with only 3 percent considered poor. Cotton planting was nearly complete at quarter-end and 23 percent of the crop had squared. South Carolina's cotton crop is considered 79 percent good to excellent and only 2 percent poor at this early stage of growth. Similar to cotton, the peanut crop in South Carolina is all planted and about 10 percent of the crop has pegged with about 79 percent of this crop rated good to excellent. Virtually all the state's wheat and oats crops are harvested and yields were comparable to 2011 levels.

The driest AgSouth service areas of South Carolina appear to be near Greenville, Anderson and Aiken as these areas have not received any significant level of precipitation. The largest negative impact has been on pasture land and the summer hay crop, but it had not yet reached the critical stage as of quarter end. Annually, South Carolina summer crop conditions can change quite rapidly if rainfall is not received timely.

Broiler production represents the largest component of the poultry industry in the state. Hatches for the broiler industry were up 2 percent within the quarter compared to the same period in 2011 while the overall domestic hatch was down by about 3 percent compared to the same time period. Broiler slaughter, both from a number and pounds standpoint, appears to be in line with the previous year with a slight negative change noted. Integrators in the state are constructing some new poultry houses but at a modest pace.

Timber markets have been relatively flat during early 2012 with pine sawtimber and pulpwood prices just slightly increased over late 2011. Hardwood pulpwood prices have shown some improvement since late 2011. Hardwood sawtimber prices are also comparable to early 2011, but are down when compared to the last two quarters of last year. The economics needed for timber markets to improve continues to relate directly to construction starts.

Real estate prices in the state continue to vary significantly depending upon size of tract, land use composition of the tract, and location. A recent LandThink.com survey completed during the second quarter indicates most individuals surveyed perceive land markets to be improved over a year earlier. Given historically low interest rates, the survey seems to project optimism relative to forecasting future land sales potential. With commodity prices of field crops, pasture, hay and vegetables remaining at profitable levels, most cropland and pasture land continues to retain or reflect increased values in many areas of the state. Timberland prices in the present market have migrated toward income producing capability with less emphasis on recreation and future appreciation than in the recent past. Timberland values remain unchanged for the most part compared to the past year.

As for South Carolina's general economy, the state's unemployment rate increased to 9.1 percent in May, up from 8.8 percent in April, but remained lower than May 2011 which was 10.4 percent. South Carolina's increase in unemployment reflected the national trend as nationally unemployment was 8.2 percent as of May month end and up from the previous month. The state GDP for 2011 also trailed national levels growing at 1.2 percent which was a percentage point lower than in 2010 and just behind the national average of 1.5 percent. South Carolina personal income growth rates grew 4.7 percent in 2011, which is 0.4 percent below the national level and ranking 32nd among states. Exports in the state increased in 2011 by 21 percent making South Carolina 17th in the nation in exports, and first in the nation in automobile and tire exports. With the export data also came an announcement that the state now exports nearly 30 percent of all tires made in the country. According to Chief Executive magazine, South Carolina now ranks seventh, moving up from eighth in 2011 and tenth in 2010, in an article on the best states in which to do business.

AgSouth's South Carolina portfolio continues to be significantly concentrated in non-farm salaried and entity income from a repayment dependency perspective. Accordingly, the state's general economy remains an important consideration to AgSouth and bears continued observation.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2012, was $1,493,483, an increase of $916 or less than 1 percent as compared to $1,492,567 at December 31, 2011. Net loans outstanding at June 30, 2012 were $1,482,380 as compared to $1,482,667 at December 31, 2011. Net loans accounted for 94.07 percent of total assets at June 30, 2012, as compared to 92.72 percent of total assets at December 31, 2011.

The slight increase in gross loan volume during the reporting period is attributed to advances on new or existing operating lines in excess of payments and payoffs on loans.

Additionally, 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 June 30, 2012, Investment securities totaled $4,223, a decrease of $4,546. The 51.84 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 $24,437 at June 30, 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. Specifically, one significant nonaccrual account was liquidated in mid June 2012. 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 $12,328 at June 30, 2012 from $16,380 at December 31, 2011. The decrease of $4,052 or 24.74 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 June 30, 2012, was $11,103 compared to $9,900 at December 31, 2011, and was considered by management to be adequate to cover possible losses. The increase in the allowance account is the result of recoveries of amounts previously charged off on nonearning accounts. 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 June to review the allowance account. The ALCO determined that an addition to the allowance account was not needed at this time due to the significant recovery. A small reversal was booked to bring the allowance account to the desired level. The ALCO considered the general economic conditions, the potential for further deterioration in the existing portfolio and the possibility for some loan growth in the next quarter in determining the level of allowance.

Premises and equipment, net decreased $483 from $15,987 at December 31, 2011 to $15,504 at June 30, 2012. The decrease is the result of normal activity within the premises and equipment accounts for the quarter and the sale of the Covington office building that had been on the market since 2010.

The amount Due from AgFirst Farm Credit Bank decreased $8,716 from $13,964 at December 31, 2011 to $5,248 at June 30, 2012. This line item includes the accrual of patronage income year to date from AgFirst to the Association. As of June 30, 2012 only two quarters of accrual had been recorded.

RESULTS OF OPERATIONS

For the three months ended June 30, 2012

Net income for the three months ended June 30, 2012, totaled $11,089 as compared to $9,050 for the same period in 2011. This is an increase of $2,039 or 22.53 percent. The commentary below explains the variance.

At June 30, 2012, interest income decreased $968 from $24,456 at June 30, 2011 to $23,488 at June 30, 2012. 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 $974 for the three months ended June 30, 2012, as compared to $256 for the same period in 2011. The significant increase in nonaccrual income is from a large nonaccrual loan paying off during the reporting period.

Interest expense decreased $1,878 for the three months ended June 30, 2012 from $10,591 at June 30, 2011 to $8,713 at June 30, 2012. 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 $910 for the three months ended June 30, 2012, as compared to the same period in 2011 due primarily to the increase in margin on new and existing loan volume and the significant amount of nonaccrual income earned at the payoff of a nonaccrual account. Net interest income after the provision for loan losses increased $2,616 in the quarter ending June 30, 2012. The significant increase can be tied to the provision entry made in 2011, but not in 2012 and an increase in margins on loans between the two reporting periods.

A provision reversal of $300 was recorded for the quarter ending June 30, 2012. The Association's ALCO made the decision about the recommended amount of loan allowance and the provision entry was necessary to get the allowance to that level for the quarter ending June 30, 2012. The ALCO analyzed the risk in the current portfolio. The analysis included reviewing historical trends, loan size, loan performance, and credit quality reports.

Noninterest income decreased $14 over the same period last year. Loan fees increased $99 or 11.42 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 decreased $72 from $239 at June 30, 2011 compared to $167 at June 30, 2012. The decrease of 30.13 percent is due to a significant bonus earned in 2011 from a multi-peril insurance provider that was not received again in 2012. This decrease was slightly offset by an increase in lease commissions earned during the reporting period.

The patronage refunds from other Farm Credit institutions decreased $349 from $3,840 at June 30, 2011 to $3,491 at June 30, 2012. This is a decrease of 9.09 percent and is tied to the lower Notes Payable balance at AgFirst Farm Credit Bank. The Notes Payable is the basis for the patronage distribution from the AgFirst Farm Credit Bank. During this reporting period, the Association did earn $853 in a special distribution from AgFirst.

In the three months ending June 30, 2012, the Association experienced losses on the sale of Other Property Owned in the amount of $2,137. During the same period of 2011, the Association booked losses on the sale of Other Property Owned of $1,008. 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 increased $16 from $400 at June 30, 2011 compared to $416 at June 30, 2012. The increase in gains is the result of the increase in originations between the two reporting periods.

Gains on the sale of premises and equipment were $122 for the period ending June 30, 2012 compared to $167 for the period ending June 30, 2011. During the reporting quarter, the Covington building was sold and a gain of $72 was recorded.

During the second quarter of 2012, the Association recorded $1,649 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Other noninterest income decreased from $115 at June 30, 2011 to an expense of $68 at June 30, 2012. The expense is the result of a write off related to a cancelled software project.

Noninterest expense for the three months ended June 30, 2012, increased $546 or 6.83 percent when compared to the same period of 2011. Salaries and employee benefit expense increased $521 between the two reporting periods. The increase in salaries and employee benefits is tied to the accrual of incentive during the 2012 reporting period. During June, management reviewed the 2012 goals in the incentive program and determined that some goals will be met and an accrual of dollars designated to pay incentive was necessary. The accrual totaled $923. This increase was partially offset by the deferral of 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 June 30, 2012 was $561 compared to $560 for the same period in 2011. The change in expense is not considered significant.

The Insurance Fund premium decreased $43 from $194 at June 30, 2011 to $151 at June 30, 2012. The variance is due to the lower average loan balance between the reporting periods, which is the basis for the expense.

Other operating expenses increased $67 from $1,243 at June 30, 2011, compared to $1,310 at June 30, 2012. The increase of 5.39 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. The Association also incurred legal expenses related to loan workout situations that were not collected. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

For the six months ended June 30, 2012

Net income for the six months ended June 30, 2012, totaled $21,519 as compared to $17,072 for the same period in 2011. This is an increase of $4,447 or 26.05 percent. The following narrative will explain the variance.

At June 30, 2012, interest income decreased $2,359 compared to the same period in 2011. The decrease was due to the decrease in interest income on loans and a decrease 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 $1,150 for the six months ended June 30, 2012, as compared to $468 for the same period in 2011. The increase of $682 or 145.73 percent is the result of the recognition of interest income when nonaccrual loans pay off. During the reporting period a significant nonaccrual loan liquidated and generated $574 of nonaccrual interest income.

Interest expense decreased $3,476 for the six months ended June 30, 2012. 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 $1,117 or 4.07 percent for the six months ended June 30, 2012 as compared to the same period in 2011 primarily due 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 $4,404 in the period ending June 30, 2012. This increase is the result of focused repricing efforts and is offset by a higher provision expense in the 2011 reporting period when compared to the 2012 reporting periods.

The provision amounts were a reversal of $300 and an expense of $2,967 for the June 30, 2012 and 2011 periods, respectively. In June 2012, the Association's ALCO made the decision that the allowance account was slightly higher than necessary and a provision reversal entry was needed after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income increased $233 over the same period last year. Loan fees increased $565 or 30.87 percent. In the first six months of 2012, the Association collected significant fee income on several large accounts. Fees for financially related services increased $73 from $415 at June 30, 2011 compared to $488 at June 30, 2012. The 17.59 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 Association also earned a bonus of $12 for active participation in leasing from Farm Credit Leasing.

The patronage refunds from other Farm Credit institutions decreased $542 from $6,754 at June 30, 2011 to $6,212 at June 30, 2012. The decrease is the result of the lower notes payable balance during the six months ending June 30, 2012. In June 2012, AgFirst made a special patronage distribution of $853 due to their 2012 year-to-date earnings. The special distribution received in 2011 was also $853. The amount of special distribution is determined by the AgFirst Farm Credit Board of Directors and based upon the financial results of the AgFirst Farm Credit Bank.

Losses on the sale or write down of other property owned totaled $2,419 for the six months ending June 30, 2012. When compared to the same period in 2011, losses on other property owned totaled $1,144. The losses or write downs were required after new contracts, sale closings, and/or new appraisals were obtained and the book value needed to more accurately reflect current market value.

Gains on the sale of rural home loans decreased $44 from $782 at June 30, 2011 to $738 at June 30, 2012. Gains decreased due to a decrease in yield premiums earned on the sales of rural home loans.

Gains on the sale of premises and equipment were $122 for the period ending June 30, 2012 compared to $173 for the period ending June 30, 2011. During the 2012 reporting period, the Covington building was sold and a gain of $72 was recorded. In 2011, another office building was sold when two offices were consolidated generating a gain of $167.

During the second quarter of 2012, the Association recorded $1,649 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Other noninterest income decreased $142 from a gain of $291 at June 30, 2011 compared to $149 at June 30, 2012. In 2012, the Association took a write off on the development costs for a software package in the amount of $48. Additionally, gains on Rabbi trust accounts established for current and former employees were $54 less in 2012 than in the same period of 2011 and savings recorded from the Captive Insurance Corporation were $46 lower in 2012 than in 2011.

Noninterest expense for the six months ended June 30, 2012, increased $180 compared to the same period of 2011. Salaries and employee benefit expense increased $290 between the two reporting periods. The 2.39 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 2012 incentive payment based upon plan results which is included in salary and benefit expense. The Association evaluated 2012 performance measures for incentive purposes and determined that some employees would earn incentive in 2012. Based upon this information, the Association accrued $923 in incentive in June 2012. Association staff will re-evaluate prior to the end of the third quarter 2012 to determine if an additional accrual is warranted.
Occupancy and equipment expense at June 30, 2012 was $1,129 compared to $1,136 for the same period in 2011. The decrease is from the normal cost of operations and some timing differences as it relates to maintenance issues.

The Insurance Fund premium decreased from $381 at June 30, 2011 to $301 at June 30, 2012. The decrease of 21.00 percent is tied to the decrease 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 decreased $23 from June 30, 2011, $2,813 compared to $2,790 at June 30, 2012. The decrease is primarily timing differences between the two reporting periods.

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 June 30, 2012 was $1,295,988 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 June 30, 2012, the Association had invested $20 of its lendable equity in fixed rate notes. These fixed rate notes have maturities in January 2013.

CAPITAL RESOURCES

Total members' equity at June 30, 2012 increased by $1,692 to $254,305 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 June 30, 2012, the allocated retained earnings had decreased to $93,954. The decrease of $19,924 or 17.50 percent is the result of the revolvement of the 2006 allocated surplus in April 2012. Unallocated equities increased $21,489 from $132,426 at December 31, 2011 to $153,915 at June 30, 2012. The increase is the result of earnings retained for capital purposes at year end 2011 and year to date earnings in 2012.

Total capital stock and participation certificates were $6,923 on June 30, 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 June 30, 2012, the Association's total surplus ratio and core surplus ratio were 15.82 percent and 11.63 percent, respectively, and the permanent capital ratio was 16.32 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.

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 June 30, 2012, the Association had loans totaling $36,334 in this program. The cost of the guarantees year to date was $106. 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 16.32 percent permanent capital at June 30, 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 six months ended June 30, 2012, the FCA took no enforcement action against the Association.

OTHER MATTERS

Gary L. Alexander resigned from the Board of Directors effective July 11, 2012.

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)	June 30, 2012	December 31, 2011
	(unaudited)	*(audited)*
Assets		
Cash	$ 1,956	$ 2,455
Investment securities:		
Held to maturity (fair value of $4,201 and $9,111 respectively)	4,223	8,769
Loans	1,493,483	1,492,567
Less: allowance for loan losses	11,103	9,900
Net loans	1,482,380	1,482,667
Loans held for sale	1,471	907
Accrued interest receivable	14,369	16,063
Investments in other Farm Credit institutions	26,855	27,120
Premises and equipment, net	15,504	15,987
Other property owned	12,328	16,380
Due from AgFirst Farm Credit Bank	5,248	13,964
Other assets	11,488	14,736
Total assets	$ 1,575,822	$ 1,599,048
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,295,988	$ 1,311,486
Accrued interest payable	2,837	3,115
Patronage refunds payable	267	8,625
Other liabilities	22,425	23,209
Total liabilities	1,321,517	1,346,435
Commitments and contingencies		
Members' Equity		
Protected borrower stock	81	104
Capital stock and participation certificates	6,842	6,679
Retained earnings		
Allocated	93,954	113,878
Unallocated	153,915	132,426
Accumulated other comprehensive income (loss)	(487)	(474)
Total members' equity	254,305	252,613
Total liabilities and members' equity	$ 1,575,822	$ 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 June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Interest Income				
Investment securities	$ 107	$ 176	$ 219	$ 357
Loans	23,381	24,280	45,922	48,143
Total interest income	23,488	24,456	46,141	48,500
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,685	10,500	17,524	20,793
Other	28	91	31	238
Total interest expense	8,713	10,591	17,555	21,031
Net interest income	14,775	13,865	28,586	27,469
Provision for (reversal of allowance for) loan losses	(300)	1,406	(300)	2,987
Net interest income after provision for (reversal of allowance for) loan losses	15,075	12,459	28,886	24,482
Noninterest Income				
Loan fees	966	867	2,395	1,830
Fees for financially related services	167	239	488	415
Patronage refunds from other Farm Credit institutions	3,491	3,840	6,212	6,754
Gains (losses) on other property owned, net	(2,137)	(1,008)	(2,419)	(1,144)
Gains (losses) on sales of rural home loans, net	416	400	738	782
Gains (losses) on sales of premises and equipment, net	122	167	122	173
Insurance Fund refunds	1,649	—	1,649	—
Other noninterest income (expense)	(68)	115	149	291
Total noninterest income	4,606	4,620	9,334	9,101
Noninterest Expense				
Salaries and employee benefits	6,521	6,000	12,436	12,146
Occupancy and equipment	561	560	1,129	1,136
Insurance Fund premiums	151	194	301	381
Other operating expenses	1,310	1,243	2,790	2,813
Total noninterest expense	8,543	7,997	16,656	16,476
Income before income taxes	11,138	9,082	21,564	17,107
Provision for income taxes	49	32	45	35
Net income	$ 11,089	$ 9,050	$ 21,519	$ 17,072

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 June 30, 2012	For the three months ended June 30, 2011	For the six months ended June 30, 2012	For the six months ended June 30, 2011
Net income	$ 11,089	$ 9,050	$ 21,519	$ 17,072
Other comprehensive income net of tax				
Employee benefit plans adjustments	15	5	(13)	(16)
Comprehensive income	$ 11,104	$ 9,055	$ 21,506	$ 17,056

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				17,072	(16)	17,056
Protected borrower stock retired	(45)					(45)
Capital stock/participation certificates issued/(retired), net		98				98
Retained earnings retired			(19,477)			(19,477)
Patronage distribution adjustment			(1,699)	2,429		730
Balance at June 30, 2011	$ 107	$ 6,623	$ 94,684	$ 144,161	$ (324)	$ 245,251
Balance at December 31, 2011	$ 104	$ 6,679	$ 113,878	$ 132,426	$ (474)	$ 252,613
Comprehensive income				21,519	(13)	21,506
Protected borrower stock retired	(23)					(23)
Capital stock/participation certificates issued/(retired), net		163				163
Retained earnings retired			(19,945)			(19,945)
Patronage distribution adjustment			21	(30)		(9)
Balance at June 30, 2012	$ 81	$ 6,842	$ 93,954	$ 153,915	$ (487)	$ 254,305

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 second 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 six months ended June 30, 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 June 30, 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 was 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 were 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 June 30, 2012 and December 31, 2011 follows:

	June 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 4,223	$ –	$ (22)	$ 4,201	6.18%

	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 June 30, 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	4,223	4,201	6.18
Total	$ 4,223	$ 4,201	6.18 %

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 June 30, 2012 and December 31, 2011:

	June 30, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 4,201	$ (22)	$ –	$ –

	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:

	June 30, 2012	December 31, 2011
Real estate mortgage	$ 1,182,446	$ 1,174,297
Production and intermediate-term	248,074	258,417
Agribusiness		
Loans to cooperatives	109	39
Processing and marketing	13,726	13,482
Farm-related business	10,528	10,522
Total agribusiness	24,363	24,043
Rural residential real estate	34,638	35,551
Other	3,962	259
Total Loans	$ 1,493,483	$ 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:

	June 30, 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	$ 630	$ 113,033	$ –	$ 7,169	$ –	$ –	$ 630	$ 120,202
Production and intermediate-term	375	39,548	2,475	–	1,044	(82)	3,894	39,466
Agribusiness								
Processing and marketing	2,591	21,638	204	6,968	–	–	2,795	28,606
Total agribusiness	2,591	21,638	204	6,968	–	–	2,795	28,606
Total	$ 3,596	$ 174,219	$ 2,679	$ 14,137	$ 1,044	$ (82)	$ 7,319	$ 188,274

	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 June 30, 2012 and indicates that approximately 14.16 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	$ 84,880	$ 257,460	$ 840,106	$ 1,182,446
Production and intermediate-term	115,871	96,403	35,800	248,074
Agribusiness				
Loans to cooperatives	–	39	70	109
Processing and marketing	5,851	4,950	2,925	13,726
Farm-related business	1,136	6,278	3,114	10,528
Total agribusiness	6,987	11,267	6,109	24,363
Rural residential real estate	3,763	5,792	25,083	34,638
Other	–	3,375	587	3,962
Total Loans	$ 211,501	$ 374,297	$ 907,685	$ 1,493,483

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.

	June 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	94.78%	94.45%
OAEM	3.24	3.71
Substandard/doubtful/loss	1.98	1.84
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	86.83%	83.32%
OAEM	7.39	7.54
Substandard/doubtful/loss	5.78	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	85.00%	86.40%
OAEM	1.82	–
Substandard/doubtful/loss	13.18	13.60
	100.00%	100.00%

	June 30, 2012	December 31, 2011
Farm-related business:		
Acceptable	97.57%	91.77%
OAEM	0.51	8.22
Substandard/doubtful/loss	1.92	0.01
	100.00%	100.00%
Total agribusiness:		
Acceptable	90.50%	88.76%
OAEM	1.25	3.58
Substandard/doubtful/loss	8.25	7.66
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.96%	92.31%
OAEM	1.24	2.59
Substandard/doubtful/loss	2.80	5.10
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	93.43%	92.37%
OAEM	3.84	4.35
Substandard/doubtful/loss	2.73	3.28
	100.00%	100.00%

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

	June 30, 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	$ 8,780	$ 5,006	$ 13,786	$ 1,179,752	$ 1,193,538	$ –
Production and intermediate-term	1,080	10,103	11,183	239,707	250,890	–
Agribusiness						
Loans to cooperatives	–	–	–	112	112	–
Processing and marketing	–	–	–	13,853	13,853	–
Farm-related business	–	1	1	10,642	10,643	–
Total agribusiness	–	1	1	24,607	24,608	–
Rural residential real estate	522	472	994	33,827	34,821	–
Other	–	–	–	3,969	3,969	–
Total	$ 10,382	$ 15,582	$ 25,964	$ 1,481,862	$ 1,507,826	$ –

	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:

	June 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 9,408	$ 9,380
Production and intermediate-term	14,090	23,722
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	204	1
Total agribusiness	204	1
Rural residential real estate	735	1,782
Total nonaccrual loans	$ 24,437	$ 34,885
Accruing restructured loans:		
Real estate mortgage	$ 4,655	$ 11,784
Production and intermediate-term	844	1,482
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	49
Total agribusiness	–	49
Rural residential real estate	–	–
Total accruing restructured loans	$ 5,499	$ 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	$ 29,936	$ 48,230
Other property owned	12,328	16,380
Total nonperforming assets	$ 42,264	$ 64,610
Nonaccrual loans as a percentage of total loans	1.64%	2.34%
Nonperforming assets as a percentage of total loans and other property owned	2.81%	4.28%
Nonperforming assets as a percentage of capital	16.62%	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.

	June 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 8,158	$ 7,863
Past due	16,279	27,022
Total impaired nonaccrual loans	24,437	34,885
Impaired accrual loans:		
Restructured	5,499	13,315
90 days or more past due	–	30
Total impaired accrual loans	5,499	13,345
Total impaired loans	$ 29,936	$ 48,230

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

	June 30, 2012			Quarter Ended June 30, 2012		Six Months Ended June 30, 2012	
	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	$ 1,609	$ 1,731	$ 241	$ 1,994	$ 58	$ 2,210	$ 69
Production and intermediate-term	8,641	9,327	1,504	10,710	311	11,871	372
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	277	795	14	343	10	380	12
Total	$ 10,527	$ 11,853	$ 1,759	$ 13,047	$ 379	$ 14,461	$ 453
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 12,454	$ 15,004	$ –	$ 15,436	$ 448	$ 17,109	$ 536
Production and intermediate-term	6,293	7,381	–	7,799	226	8,645	271
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	204	229	–	253	7	281	9
Total agribusiness	204	229	–	253	7	281	9
Rural residential real estate	458	608	–	568	17	629	20
Total	$ 19,409	$ 23,222	$ –	$ 24,056	$ 698	$ 26,664	$ 836
Total impaired loans:							
Real estate mortgage	$ 14,063	16,735	241	$ 17,430	$ 506	$ 19,319	$ 605
Production and intermediate-term	14,934	16,708	1,504	18,509	537	20,516	643
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	204	229	–	253	7	281	9
Total agribusiness	204	229	–	253	7	281	9
Rural residential real estate	735	1,403	14	911	27	1,009	32
Total	$ 29,936	$ 35,075	$ 1,759	$ 37,103	$ 1,077	$ 41,125	$ 1,289

	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 June 30, 2012.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Other (including mission related)	Total
Allowance for credit losses:						
Balance at March 31, 2012	$ 4,272	$ 4,604	$ 71	$ 705	$ 1	$ 9,653
Charge-offs	(270)	(13)	(1)	(633)	–	(917)
Recoveries	161	2,480	22	4	–	2,667
Provision for loan losses	3,475	(4,013)	60	154	24	(300)
Balance at June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
Charge-offs	(423)	(158)	(1)	(633)	–	(1,215)
Recoveries	204	2,488	22	4	–	2,718
Provision for loan losses	3,575	(4,105)	48	158	24	(300)
Balance at June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Balance at March 31, 2011	$ 5,259	$ 2,950	$ 127	$ 152	$ –	$ 8,488
Charge-offs	(550)	(163)	–	(45)	–	(758)
Recoveries	181	–	–	22	–	203
Provision for loan losses	257	1,204	(43)	(12)	–	1,406
Balance at June 30, 2011	$ 5,147	$ 3,991	$ 84	$ 117	$ –	$ 9,339
Balance at December 31, 2010	$ 6,422	$ 1,624	$ 236	$ 218	$ –	$ 8,500
Charge-offs	(1,831)	(356)	(117)	(48)	–	(2,352)
Recoveries	182	–	–	22	–	204
Provision for loan losses	374	2,723	(35)	(75)	–	2,987
Balance at June 30, 2011	$ 5,147	$ 3,991	$ 84	$ 117	$ –	$ 9,339
Loans individually evaluated for impairment	$ 241	$ 1,504	$ –	$ 14	$ –	$ 1,759
Loans collectively evaluated for impairment	7,397	1,554	152	216	25	9,344
Balance at June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Loans individually evaluated for impairment	$ 263	$ 3,944	$ –	$ 580	$ –	$ 4,787
Loans collectively evaluated for impairment	4,019	889	83	121	1	5,113
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 9,411	$ 14,111	$ 205	$ 734	$ –	$ 24,461
Loans collectively evaluated for impairment	1,184,127	236,779	24,403	34,087	3,969	1,483,365
Ending balance at June 30, 2012	$ 1,193,538	$ 250,890	$ 24,608	$ 34,821	$ 3,969	$ 1,507,826
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
Ending balance at December 31, 2011	$ 1,185,974	$ 262,359	$ 24,323	$ 35,724	$ 260	$ 1,508,640

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 June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 157	$ 321	$ 478
Production and intermediate-term	336	–	–	336
Agribusiness				
Farm-related business	–	–	321	321
Total	$ 336	$ 157	$ 642	$ 1,135

	Three months ended June 30, 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	$ –	$ 157	$ 321	$ 478	$ –	$ –
Production and intermediate-term	334	–	–	334	(24)	–
Agribusiness						
Farm-related business	–	–	321	321	–	–
Total	$ 334	$ 157	$ 642	$ 1,133	$ (24)	$ –

	Six months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,461	$ 298	$ 321	$ 2,080
Production and intermediate-term	336	–	–	336
Agribusiness				
Farm-related business	–	–	321	321
Total	$ 1,797	$ 298	$ 642	$ 2,737

	Six months ended June 30, 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	$ 298	$ 321	$ 2,073	$ –	$ –
Production and intermediate-term	334	–	–	334	(24)	–
Agribusiness						
Farm-related business	–	–	321	321	–	–
Total	$ 1,788	$ 298	$ 642	$ 2,728	$ (24)	$ –

	Three months ended June 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ 8	$ 750	$ –	$ 758
Total	$ 8	$ 750	$ –	$ 758

	Three months ended June 30, 2011					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Production and intermediate-term	$ 8	$ 750	$ –	$ 758	$ –	$ –
Total	$ 8	$ 750	$ –	$ 758	$ –	$ –

	Six months ended June 30, 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	418	770	–	1,188
Rural residential real estate	295	–	–	295
Total	$ 1,322	$ 1,523	$ -	$ 2,845

	Six months ended June 30, 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	406	770	–	1,176	–	–
Rural residential real estate	295	–	–	295	–	–
Total	$ 1,310	$ 1,523	$ –	$ 2,833	$ –	$ –

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 outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three months ended June 30, 2012	Six months ended June 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ –	$ 25
Production and intermediate-term	27	625
Agribusiness		
Farm-related business	–	1
Total	$ 27	$ 651

TDRs outstanding at period end totaled $8,588, of which $3,089 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 six months ended June 30,	
	2012	2011
Pension	$ 3,187	$ 3,130
401(k)	274	264
Other postretirement benefits	421	540
Total	$ 3,882	$ 3,934

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

	Actual YTD Through 6/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ 43	$ 4,863	$ 4,906
Other postretirement benefits	378	357	735
Total	$ 421	$ 5,220	$ 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 6.90 percent of the issued stock of the Bank as of June 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $253 million for the first six months of 2012. In addition, the Association has an investment of $3,088 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 six months ended June 30, 2012 and 2011. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the first six 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	2
Settlements	–
Transfers in and/or out of level 3	–
Balance at June 30, 2012	$ 9

	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	(64)
Transfers in and/or out of level 3	–
Balance at June 30, 2011	$ 14

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:

	June 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Comprehensive Income (Loss)
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 672	$ 672	$ -	$ -	$ 672	$ (2)
Recurring Assets	$ 672	$ 672	$ -	$ -	$ 672	$ (2)
Liabilities:						
Standby letters of credit	$ 9	$ -	$ -	$ 9	$ 9	$ -
Recurring Liabilities	$ 9	$ -	$ -	$ 9	$ 9	$ -
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 28,177	$ -	$ -	$ 28,177	$ 28,177	$ 4,532
Other property owned	12,328	-	-	14,126	14,126	(2,381)
Nonrecurring Assets	$ 40,505	$ -	$ -	$ 42,303	$ 42,303	$ 2,151
Other Financial Instruments						
Assets:						
Cash	$ 1,956	$ 1,956	$ -	$ -	$ 1,956	
Investment securities, held-to-maturity	4,223	-	-	4,201	4,201	
Loans	1,455,674	-	-	1,466,674	1,466,674	
Accrued interest receivable	14,369	-	14,369	-	14,369	
Other Assets	$ 1,476,222	$ 1,956	$ 14,369	$ 1,470,875	$ 1,487,200	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,295,988	$ -	$ -	$ 1,303,385	$ 1,303,385	
Accrued interest payable	2,837	-	2,837	-	2,837	
Other Liabilities	$ 1,298,825	$ -	$ 2,837	$ 1,303,385	$ 1,306,222	

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, 2011	$ (474)
Other comprehensive income	(13)
Balance at June 30, 2012	$ (487)
Balance at December 31, 2010	$ (308)
Other comprehensive income	(16)
Balance at June 30, 2011	$ (324)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ 15	$ 5	$ 30	$ 11
Net gain (loss) during period	–	–	(43)	(27)
Defined benefit post retirement plans, net	$ 15	$ 5	$ (13)	$ (16)

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated other subsequent events and has determined there are none requiring disclosure through August 8, 2012, which is the date the financial statements were issued.