AgSouth Farm Credit, ACA

THIRD QUARTER 2012

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CERTIFICATION

The undersigned certify that we have reviewed the September 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

November 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 September 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 September 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 September 30, 2012.

William P. Spigener

William P. Spigener
Chief Executive Officer

Alisa D. Gunter

Alisa D. Gunter
Chief Financial Officer

November 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 September 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 $1,259,132 or 83.08 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the third quarter of 2012 the Association originated $38,771 in loans for the secondary market. Originations at the same period 2011 were $26,088. The 48.62 percent increase is the result of an increase in refinances due to the low interest rate environment. Rates continue to remain low, which is beneficial to qualifying customers. As of September 30, 2012, the Association held $1,284 in qualifying loans for sale.

Georgia Region

Crops across the 59 counties served by AgSouth in Georgia look very good going into harvest. Most of the counties within our territory avoided the drought that hurt the central Georgia area during 2012. The U. S. drought monitor index, published by USDA, indicates that all of AgSouth's southeast Georgia counties, which are part of our primary row crop region, were in a no drought situation. Neighboring central Georgia counties, outside of our territory, were experiencing exceptional drought, USDA's highest drought rating. AgSouth's west Georgia region did have moderate to severe drought conditions; however, this primarily impacted early hay and forage crops and does not significantly impact repayment capacity of our portfolio. Even with the drought in the west Georgia area their pasture and range conditions are rated 86 percent fair to excellent.

USDA's crop progress and condition report issued October 15, 2012 indicates 93 percent of cotton has started opening and 89 percent of the crop is rated as fair to excellent. Cotton prices had ranges in the mid 70 cents per pound for the last several months. Recently, prices have seen an uptick toward 80 cents per pound. Peanuts are 67 percent dug and 50 percent harvested as of October 15 with 97 percent of that crop rated fair to excellent. Early contracts were available at favorable prices but high yields have kept prices down. Exceptional yields will create a good year for most growers even without higher contract prices. Soybeans are only 12 percent harvested and 92 percent of that crop is rated fair to excellent at this time. Soybean prices peaked in August around $17.50 per bushel and have settled around $15.00 per bushel. Corn is close to a 100 percent complete harvest and yields and prices were excellent. Corn prices in August and September were in the $8.00-$8.50 range at most buying points in the region. Corn prices have eased slightly in recent weeks to the $7.40 range.

The Georgia pecan crop is expected to be good with 98 percent rated fair to excellent. Prices are expected to be strong again this year given strong export demand for pecans.

Composite lumber prices have increased above $300 per thousand board feet with an average of around $280 per thousand board feet for the year. This has allowed most mills in our area to operate profitability for most of 2012. Generally, pine and hardwood prices have been stable to slightly higher since the beginning of 2012. The exception is the coastal area of Georgia which has seen strong demand and price increases throughout the year for pine pulpwood.

Other products continue to have overall stable demand and pricing. High feed costs have created operating losses for most poultry integrators serving our region. However, most are well positioned to withstand a period of losses and we do not expect any immediate cut backs by the integrators which would impact growers financed by the Association. Feed costs have dropped in recent weeks with lower corn and soybean prices helping improve those margins to the integrators.

According to Kennesaw State University College of Business, Georgia's manufacturing index (PMI) was up 1.6 points in September after 4 months of decline. This put the index at 52 which is slightly above the national PMI of 51.5. A PMI above 50 indicates the manufacturing sector is expanding while an index below 50 indicates contraction. Georgia's ports logged another record year growing faster than any other port in the nation for the last eight years. The port of Brunswick saw the greatest increase in growth at just over a 30 percent increase in tonnage. The port of Savannah is second only to the port of Los Angeles in container export volume.

While Georgia has created 50,000 jobs since August 2011, the state's unemployment rate of 9.2 percent continues to run above the August 2012 national average. This is down from 9.9 percent in August 2011.

Cropland values across the region are indicating a slight upward trend in value while woodland values seem to be stabilizing with some counties still showing a decrease in average woodland values. This data is reflected in our most recent land value trend study and supported by USDA data for the region. There is also an increase in the number of land sales year over year indicating more activity returning to the land market.

The Georgia region has experienced a relatively good third quarter throughout most of our agricultural sector and we expect the fall harvest season to be good as well. Secondary market housing activity is very good and on track for a near record year. High unemployment, a sluggish general economy, and slow recovery in the construction industry are still creating some problems within the non-farm dependant segment of the portfolio putting negative pressure on credit quality during the quarter from deterioration in some of these loans.

South Carolina Region

South Carolina's economy has continued to battle back since the recession hit in 2007. Unemployment within the state improved over the past several years with unemployment reduced to 8.8 percent as of the end of the first quarter 2012; however, recently the unemployment rate has increased and stands at 9.6 percent as of August month-end. This indicates just how unpredictable the region's economy remains. The state's unemployment rate continues to be higher than the national average.

The South Carolina region consists of a high percentage of customers who repay loans from non-farm salary or non-farm corporate income sources. The combination of these non-farm income sources represents over 56 percent of the loans repaid in the state. Despite South Carolina's economy remaining somewhat fragile, the South Carolina region's delinquency rate remains well below the national targets established for Farm Credit.

Poultry continues to represent the largest commodity in SC that is repaid from agricultural income. The poultry industry continues to perform adequately but concerns remain over present and future feed costs and the impact on profitability. Some new poultry house construction has taken place within the region but at a slow pace.

Many row crops produced within the region are presently in the harvest stage and results reported appear favorable. The region lacked moisture during the spring and at times during the summer, but farmers were fortunate to receive adequate rain in most areas of the state in time to allow for average to above average production for most crops. Recent reports project harvest results for corn, cotton, and peanuts to exceed 2011 levels of production. The harvested acres of these three crops are advancing toward completion rapidly as harvest conditions have been excellent throughout the state. Soybeans are presently in an early stage of harvest but are projected to exceed yields per acre experienced in 2011. With most commodity prices remaining at attractive levels, the ability to generate earnings in this crop year appears good.

A large percentage of the loans classified as forestry in South Carolina are repaid from non-farm income. In most areas of the state, forestry prices remain stable to slightly higher compared to the beginning of the year. Some timberland has been selling recently, and sales analyzed by AgSouth staff indicate timberland values are leveling out in most areas of the state.

The South Carolina region continues to provide real estate financing for rural landowners in the state. Purchases of land and refinancing of land loans retained with other financial institutions have improved during the third quarter. Even though few cropland sales have been observed within the state, the location and timing of cropland sales and their values have projected an upward trend. Demand for cropland is considered strong but acreage or supply in the marketplace has been minimal.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2012, was $1,515,634, an increase of $23,067 or 1.55 percent as compared to $1,492,567 at December 31, 2011. Net loans outstanding at September 30, 2012 were $1,504,653 as compared to $1,482,667 at December 31, 2011. Net loans accounted for 94.12 percent of total assets at September 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.

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 September 30, 2012, investment securities totaled $4,191, a decrease of $4,578. The 52.21 percent decrease is from a significant liquidation of one investment security during the reporting period and normal payments.

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 $23,256 at September 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 $8,458 at September 30, 2012 from $16,380 at December 31, 2011. The decrease of $7,922 or 48.36 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 continues to hold several significant acreage tracts in both the Georgia and South Carolina territory served. The Association is actively marketing all properties for sale. For details, please visit our website at *www.agsouthfc.com* and click on Property For Sale.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2012, was $10,981 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 and a small provision reversal in the second quarter. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in September to review the allowance account. The ALCO determined that an addition to the allowance account was not needed at this time due to the significant recovery. 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 $283 from $15,987 at December 31, 2011 to $15,704 at September 30, 2012. The decrease is the result of normal activity within the premises and equipment accounts for the quarter and the second quarter 2012 sale of the Covington office building that had been on the market since 2010.

The amount due from AgFirst Farm Credit Bank decreased $5,991 from $13,964 at December 31, 2011 to $7,973 at September 30, 2012. This line item includes the accrual of patronage income year to date from AgFirst to the Association. As of September 30, 2012 only three quarters of accrual had been recorded.

RESULTS OF OPERATIONS

For the three months ended September 30, 2012

Net income for the three months ended September 30, 2012, totaled $10,619 as compared to $9,313 for the same period in 2011. This is an increase of $1,306 or 14.02 percent. The commentary below explains the variance.

At September 30, 2012, interest income decreased $1,424 from $24,666 at September 30, 2011 to $23,242 at September 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 $134 for the three months ended September 30, 2012, as compared to $283 for the same period in 2011. The significant decrease in nonaccrual income is from a large nonaccrual loan paying off during 2011 that did not reoccur during 2012.

Interest expense decreased $1,576 for the three months ended September 30, 2012 from $10,083 at September 30, 2011 to $8,507 at September 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 $152 for the three months ended September 30, 2012, as compared to the same period in 2011 due primarily to the increase in margin on new and existing loan volume and lower debt expense. Net interest income after the provision for loan losses increased $2,467 in the quarter ending September 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 for loan loss addition of $2,315 was recorded for the quarter ending September 30, 2011. No provision entry was recorded in the quarter ending September 30, 2012. The Association's ALCO made the decision to keep the allowance at the current level; therefore no additional provision entry was necessary. 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 $805 over the same period last year. Loan fees decreased $91 or 9.43 percent. Fees for financially related services increased $161 from $179 at September 30, 2011 compared to $340 at September 30, 2012. The increase of 89.94 percent is due to an increase in commissions earned on leasing activities and from the sale of life insurance between the two reporting periods.

The patronage refunds from other Farm Credit institutions decreased $214 from $3,017 at September 30, 2011 to $2,803 at September 30, 2012. This is a decrease of 7.09 percent and is tied to the lower Notes Payable balance at AgFirst Farm Credit Bank and a decrease in patronage earned on loans sold to other Farm Credit entities. The Notes Payable is the basis for the patronage distribution from the AgFirst Farm Credit Bank.

In the three months ending September 30, 2012, the Association experienced losses on the sale of Other Property Owned in the amount of $525. During the same period of 2011, the Association booked losses on the sale of Other Property Owned of $387. 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 $131 from $247 at September 30, 2011 compared to $378 at September 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 $2 for the period ending September 30, 2012 compared to $425 for the period ending September 30, 2011. During the reporting quarter in 2011, the Association sold the branch office building in Madison and recorded a gain.

Other noninterest income decreased from $306 at September 30, 2011 to $75 at September 30, 2012. The 2011 amount included fees collected on a bond investment that did not reoccur in 2012.

Noninterest expense for the three months ended September 30, 2012, increased $377 or 4.90 percent when compared to the same period of 2011. Salaries and employee benefit expense increased $182 between the two reporting periods. The increase in salaries and employee benefits is tied to an increase in commissions paid to the secondary market origination staff due to their increase in originations. 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 September 30, 2012 was $594 compared to $535 for the same period in 2011. The slight increase of $59 is due to some maintenance required on heating and air units at several of the branch locations during the reporting period as well as the purchase of computer hardware to replace existing units.

The Insurance Fund premium decreased $46 from $199 at September 30, 2011 to $153 at September 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 $182 from $1,288 at September 30, 2011, compared to $1,470 at September 30, 2012. The increase of 14.13 percent is attributed to an increase in purchased services expense due to some legal fees. Also included is some additional expense related to training. Some of the variance can be explained as timing differences in the payment of advertising and public relations expenses, and a decrease in fees placed in the Farmer Mac in-portfolio guarantee program. The Association continues to experience higher travel expense due to the increase in the cost of operating Association automobiles. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

For the nine months ended September 30, 2012

Net income for the nine months ended September 30, 2012, totaled $32,138 as compared to $26,385 for the same period in 2011. This is an increase of $5,753 or 21.80 percent. The following narrative will explain the variance.

At September 30, 2012, interest income decreased $3,783 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 $1,284 for the nine months ended September 30, 2012, as compared to $750 for the same period in 2011. The increase of $534 or 71.20 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 $5,052 for the nine months ended September 30, 2012. The decrease is attributable to the lower interest rate environment and the ability of the Association to reprice a portion of the Notes Payable at a lower rate.

Net interest income before the provision for loan loss increased $1,269 or 3.02 percent for the nine months ended September 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 $6,871 in the period ending September 30, 2012. This increase is the result of focused repricing efforts and is offset by a significantly 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 $5,302 for the September 30, 2012 and 2011 periods, respectively. In September 2012, the Association's ALCO made the decision that the allowance account did not require any additional provision and that a reversal of provision was not necessary. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income decreased $572 over the same period last year. Loan fees increased $474 or 16.96 percent. In the first nine months of 2012, the Association collected significant fee income on several large accounts. Fees for financially related services increased $234 from $594 at September 30, 2011 compared to $828 at September 30, 2012. The 39.39 percent increase in fees for financially related services is the result of increased income earned on sales of multi-peril insurance, leasing and fee appraisal services. The Association also earned a bonus of $13 for active participation in leasing from Farm Credit Leasing.

The patronage refunds from other Farm Credit institutions decreased $756 from $9,771 at September 30, 2011 to $9,015 at September 30, 2012. The decrease is the result of the lower notes payable balance during the nine months ending September 30, 2012. In June 2012, AgFirst made a special patronage distribution of $853. 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 $2,944 for the nine months ending September 30, 2012. When compared to the same period in 2011, losses on other property owned totaled $1,531. 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 increased $87 from $1,029 at September 30, 2011 to $1,116 at September 30, 2012. Gains increased due to an increase in yield premiums earned on the sales of rural home loans and it is directly tied to the increase in originations between the two reporting periods.

Gains on the sale of premises and equipment were $124 for the period ending September 30, 2012 compared to $598 for the period ending September 30, 2011. During the 2012 reporting period, the Covington building was sold and a gain of $73 was recorded. In 2011, the Madison branch office building was sold and generated a gain of $576.

During the first 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 $373 from $597 at September 30, 2011 compared to $224 at September 30, 2012. In 2011, the Association collected equities on loans in default status. Collections in 2012 were not as significant.

Noninterest expense for the nine months ended September 30, 2012, increased $557 compared to the same period of 2011. Salaries and employee benefit expense increased $472 between the two reporting periods. The 2.65 percent increase in salaries and employee benefits is tied to the increase in salaries paid to commissioned originators and 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 in June 2012. 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 September 2012. Association staff will re-evaluate prior to the end of the fourth quarter 2012 to determine if an additional accrual is warranted.

Occupancy and equipment expense at September 30, 2012 was $1,723 compared to $1,671 for the same period in 2011. The increase is from the normal cost of operations and some timing differences as it relates to maintenance issues.

The Insurance Fund premium decreased from $580 at September 30, 2011 to $454 at September 30, 2012. The decrease of 21.72 percent is tied to the decrease in insurance expense relate due to lower nonaccrual loan volume. The current premium on loans paid to the FCSIC is 5 basis points for accruing volume and 10 basis points for nonaccrual volume.

Other operating expenses increased $159 from September 30, 2011, $4,101 compared to $4,260 at September 30, 2012. The increase is related to an increase in purchased services expense between the two reporting period and other general operating expense timing differences.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2012 was $1,309,073 as compared to $1,311,486 at December 31, 2011.

As of September 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 September 30, 2012 increased by $12,275 to $264,888 from the December 31, 2011 total of $252,613. The increase is primarily attributed to the increase in earnings of the Association plus the addition to capital at year end 2011 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 September 30, 2012, the allocated retained earnings had decreased to $93,818. The decrease of $20,060 or 17.62 percent is the result of the revolvement of the 2006 allocated surplus in April 2012. Unallocated equities increased $32,108 from $132,426 at December 31, 2011 to $164 534 at September 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 $7,008 on September 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 September 30, 2012, the Association's total surplus ratio and core surplus ratio were 16.06 percent and 12.00 percent, respectively, and the permanent capital ratio was 16.56 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 September 30, 2012, the Association had loans totaling $37,598 in this program. The cost of the guarantees year to date was $156. 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 16.56 percent permanent capital at September 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

On October 11, 2012, the Board entered into a Supervisory Agreement with the Farm Credit Administration (FCA). The

Supervisory Agreement requires the Association to take corrective actions and other actions with respect to certain areas of its operations including standards of conduct, acquired property, borrower rights and board policies. Conditions and events that led to the need for this agreement include a violation of FCA Regulation 12 C.F.R. 2140 concerning the sale of other property owned. The requirements of this agreement include, but are not limited to:

- Appointment of a new Standards of Conduct Official
- Appointment of a Board Compliance Committee as it relates to the Supervisory Agreement and ongoing Standards of Conduct issues
- Establishment of a standards of conduct program for directors, employees, and agents of the Association which is to include a review of applicable policies and procedures, training for directors and employees and comprehensive audits
- Policies and procedures around the disposition of other property owned
- Special requirements for properties under contract as of the date of the agreement
- Board approval and certification of future contracts on other properties owned to ensure compliance with FCA Regulations and Association policies and procedures

The Association has begun taking corrective action to correct the weaknesses identified by developing a detailed plan with assignments and due dates. A Compliance Committee was appointed by the Board of Directors on October 11, 2012. This committee is comprised of the Board chairman and vice chairman, Audit Committee chairman, and two other directors. The Board chairman will serve as the chairman of the Compliance Committee. On October 11, 2012, the Board named Wesley D. Sutton as the Association Standards of Conduct Official. This action was approved by the Director, Risk Supervision Division at the FCA.

Both the Board and Senior Management are committed to continuing the administration of the Association in a safe and sound manner, compliant with all FCA Regulations.

The Association remained under written Supervisory Agreement as of the date of this report.

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)	September 30, 2012	December 31, 2011
	(unaudited)	*(audited)*
Assets		
Cash	$ 2,594	$ 2,455
Investment securities:		
Held to maturity (fair value of $4,169 and $9,111 respectively)	4,191	8,769
Loans	1,515,634	1,492,567
Less: allowance for loan losses	10,981	9,900
Net loans	1,504,653	1,482,667
Loans held for sale	1,284	907
Accrued interest receivable	16,768	16,063
Investments in other Farm Credit institutions	26,855	27,120
Premises and equipment, net	15,704	15,987
Other property owned	8,458	16,380
Due from AgFirst Farm Credit Bank	7,973	13,964
Other assets	10,126	14,736
Total assets	$ 1,598,606	$ 1,599,048
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,309,073	$ 1,311,486
Accrued interest payable	2,775	3,115
Patronage refunds payable	132	8,625
Other liabilities	21,738	23,209
Total liabilities	1,333,718	1,346,435
Commitments and contingencies		
Members' Equity		
Protected borrower stock	78	104
Capital stock and participation certificates	6,930	6,679
Retained earnings		
Allocated	93,818	113,878
Unallocated	164,534	132,426
Accumulated other comprehensive income (loss)	(472)	(474)
Total members' equity	264,888	252,613
Total liabilities and members' equity	$ 1,598,606	$ 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 September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Interest Income				
Investment securities	$ 67	$ 175	$ 286	$ 532
Loans	23,175	24,491	69,097	72,634
Total interest income	23,242	24,666	69,383	73,166
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,493	10,050	26,017	30,843
Other	14	33	45	271
Total interest expense	8,507	10,083	26,062	31,114
Net interest income	14,735	14,583	43,321	42,052
Provision for (reversal of allowance for) loan losses	—	2,315	(300)	5,302
Net interest income after provision for (reversal of allowance for) loan losses	14,735	12,268	43,621	36,750
Noninterest Income				
Loan fees	874	965	3,269	2,795
Fees for financially related services	340	179	828	594
Patronage refunds from other Farm Credit institutions	2,803	3,017	9,015	9,771
Gains (losses) on other property owned, net	(525)	(387)	(2,944)	(1,531)
Gains (losses) on sales of rural home loans, net	378	247	1,116	1,029
Gains (losses) on sales of premises and equipment, net	2	425	124	598
Insurance Fund refunds	—	—	1,649	—
Other noninterest income	75	306	224	597
Total noninterest income	3,947	4,752	13,281	13,853
Noninterest Expense				
Salaries and employee benefits	5,848	5,666	18,284	17,812
Occupancy and equipment	594	535	1,723	1,671
Insurance Fund premiums	153	199	454	580
Other operating expenses	1,470	1,288	4,260	4,101
Total noninterest expense	8,065	7,688	24,721	24,164
Income before income taxes	10,617	9,332	32,181	26,439
Provision (benefit) for income taxes	(2)	19	43	54
Net income	$ 10,619	$ 9,313	$ 32,138	$ 26,385

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 September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Net income	$ 10,619	$ 9,313	$ 32,138	$ 26,385
Other comprehensive income net of tax				
Employee benefit plans adjustments	15	6	2	(10)
Comprehensive income	$ 10,634	$ 9,319	$ 32,140	$ 26,375

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				26,385	(10)	26,375
Protected borrower stock retired	(46)					(46)
Capital stock/participation certificates issued/(retired), net		137				137
Retained earnings retired			(19,823)			(19,823)
Patronage distribution adjustment			(1,699)	2,429		730
Balance at September 30, 2011	$ 106	$ 6,662	$ 94,338	$ 153,474	$ (318)	$ 254,262
Balance at December 31, 2011	$ 104	$ 6,679	$ 113,878	$ 132,426	$ (474)	$ 252,613
Comprehensive income				32,138	2	32,140
Protected borrower stock retired	(26)					(26)
Capital stock/participation certificates issued/(retired), net		251				251
Retained earnings retired			(20,081)			(20,081)
Patronage distribution adjustment			21	(30)		(9)
Balance at September 30, 2012	$ 78	$ 6,930	$ 93,818	$ 164,534	$ (472)	$ 264,888

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 third 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 nine months ended September 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 September 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 significant 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 September 30, 2012 and December 31, 2011 follows:

	September 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 4,191	$ –	$ (22)	$ 4,169	6.28%

	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 contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity at September 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	4,191	4,169	6.28
Total	$ 4,191	$ 4,169	6.28 %

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 September 30, 2012 and December 31, 2011:

	September 30, 2012			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 4,169	$ (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:

	September 30, 2012	December 31, 2011
Real estate mortgage	$ 1,195,829	$ 1,174,297
Production and intermediate-term	255,718	258,417
Agribusiness		
Loans to cooperatives	97	39
Processing and marketing	13,880	13,482
Farm-related business	10,899	10,522
Total agribusiness	24,876	24,043
Rural residential real estate	35,257	35,551
Other	3,954	259
Total Loans	$ 1,515,634	$ 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. Participation loan balances at period end were as follows:

	September 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	$ 546	$ 117,065	$ –	$ 7,258	$ –	$ –	$ 546	$ 124,323
Production and intermediate-term	288	50,139	934	613	1,012	(96)	2,234	50,656
Agribusiness								
Processing and marketing	2,369	20,767	132	6,826	–	–	2,501	27,593
Total agribusiness	2,369	20,767	132	6,826	–	–	2,501	27,593
Total	$ 3,203	$ 187,971	$ 1,066	$ 14,697	$ 1,012	$ (96)	$ 5,281	$ 202,572

	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

Significant sources of liquidity for the Association are the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at September 30, 2012 and indicates that approximately 14.91 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	$ 90,650	$ 262,342	$ 842,837	$ 1,195,829
Production and intermediate-term	123,805	96,169	35,744	255,718
Agribusiness				
Loans to cooperatives	–	27	70	97
Processing and marketing	6,041	4,930	2,909	13,880
Farm-related business	1,646	6,136	3,117	10,899
Total agribusiness	7,687	11,093	6,096	24,876
Rural residential real estate	3,814	5,555	25,888	35,257
Other	–	3,370	584	3,954
Total Loans	$ 225,956	$ 378,529	$ 911,149	$ 1,515,634

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.

	September 30, 2012	December 31, 2011
Real estate mortgage:		
Acceptable	94.29%	94.45%
OAEM	2.90	3.71
Substandard/doubtful/loss	2.81	1.84
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.84%	83.32%
OAEM	3.49	7.54
Substandard/doubtful/loss	6.67	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	85.53%	86.40%
OAEM	1.83	–
Substandard/doubtful/loss	12.64	13.60
	100.00%	100.00%
Farm-related business:		
Acceptable	98.14%	91.77%
OAEM	0.04	8.22
Substandard/doubtful/loss	1.82	0.01
	100.00%	100.00%
Total agribusiness:		
Acceptable	91.12%	88.76%
OAEM	1.04	3.58
Substandard/doubtful/loss	7.84	7.66
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.62%	92.31%
OAEM	1.17	2.59
Substandard/doubtful/loss	1.21	5.10
	100.00%	100.00%
Other:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	93.57%	92.37%
OAEM	2.92	4.35
Substandard/doubtful/loss	3.51	3.28
	100.00%	100.00%

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

	September 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	$ 9,075	$ 4,538	$ 13,613	$ 1,194,665	$ 1,208,278	$ –
Production and intermediate-term	1,939	9,312	11,251	248,261	259,512	–
Agribusiness						
Loans to cooperatives	–	–	–	99	99	–
Processing and marketing	–	–	–	14,040	14,040	–
Farm-related business	–	1	1	11,042	11,043	–
Total agribusiness	–	1	1	25,181	25,182	–
Rural residential real estate	463	–	463	34,982	35,445	–
Other	–	–	–	3,962	3,962	–
Total	$ 11,477	$ 13,851	$ 25,328	$ 1,507,051	$ 1,532,379	$ –

	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 a 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:

	September 30, 2012	December 31, 2011
Nonaccrual loans:		
Real estate mortgage	$ 8,334	$ 9,380
Production and intermediate-term	13,693	23,722
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	841	–
Farm-related business	201	1
Total agribusiness	1,042	1
Rural residential real estate	187	1,782
Total nonaccrual loans	$ 23,256	$ 34,885
Accruing restructured loans:		
Real estate mortgage	$ 7,742	$ 11,784
Production and intermediate-term	856	1,482
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	49
Total agribusiness	–	49
Rural residential real estate	–	–
Total accruing restructured loans	$ 8,598	$ 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	$ 31,854	$ 48,230
Other property owned	8,458	16,380
Total nonperforming assets	$ 40,312	$ 64,610
Nonaccrual loans as a percentage of total loans	1.53%	2.34%
Nonperforming assets as a percentage of total loans and other property owned	2.64%	4.28%
Nonperforming assets as a percentage of capital	15.22%	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.

	September 30, 2012	December 31, 2011
Impaired nonaccrual loans:		
Current as to principal and interest	$ 8,004	$ 7,863
Past due	15,252	27,022
Total impaired nonaccrual loans	23,256	34,885
Impaired accrual loans:		
Restructured	8,598	13,315
90 days or more past due	–	30
Total impaired accrual loans	8,598	13,345
Total impaired loans	$ 31,854	$ 48,230

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

	September 30, 2012			Quarter Ended September 30, 2012		Nine Months Ended September 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	$ 2,710	$ 2,775	$ 271	$ 2,660	$ 18	$ 3,217	$ 127
Production and intermediate-term	8,628	9,221	1,409	8,469	56	10,242	406
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	840	840	249	825	5	998	39
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	840	840	249	825	5	998	39
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 12,178	$ 12,836	$ 1,929	$ 11,954	$ 79	$ 14,457	$ 572
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 13,366	$ 15,829	$ –	$ 13,121	$ 87	$ 15,868	$ 628
Production and intermediate-term	5,921	6,991	–	5,812	39	7,030	277
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	1	–	–	1	–	1	1
Farm-related business	201	228	–	197	1	238	9
Total agribusiness	202	228	–	198	1	239	10
Rural residential real estate	187	254	–	183	1	222	9
Total	$ 19,676	$ 23,302	$ –	$ 19,314	$ 128	$ 23,359	$ 924
Total impaired loans:							
Real estate mortgage	$ 16,076	18,604	271	$ 15,781	$ 105	$ 19,085	$ 755
Production and intermediate-term	14,549	16,212	1,409	14,281	95	17,272	683
Agribusiness							
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	841	840	249	826	5	999	40
Farm-related business	201	228	–	197	1	238	9
Total agribusiness	1,042	1,068	249	1,023	6	1,237	49
Rural residential real estate	187	254	–	183	1	222	9
Total	$ 31,854	$ 36,138	$ 1,929	$ 31,268	$ 207	$ 37,816	$ 1,496

	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 each reporting period.

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 June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Charge-offs	(87)	(53)	(4)	(68)	–	(212)
Recoveries	56	28	1	5	–	90
Provision for loan losses	(197)	(92)	249	42	(2)	–
Balance at September 30, 2012	$ 7,410	$ 2,941	$ 398	$ 209	$ 23	$ 10,981
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
Charge-offs	(510)	(211)	(5)	(701)	–	(1,427)
Recoveries	260	2,516	23	9	–	2,808
Provision for loan losses	3,378	(4,197)	297	200	22	(300)
Balance at September 30, 2012	$ 7,410	$ 2,941	$ 398	$ 209	$ 23	$ 10,981
Balance at June 30, 2011	$ 5,147	$ 3,991	$ 84	$ 117	$ –	$ 9,339
Charge-offs	(2,054)	(1,668)	–	(10)	–	(3,732)
Recoveries	318	–	–	–	–	318
Provision for loan losses	946	740	27	601	1	2,315
Balance at September 30, 2011	$ 4,357	$ 3,063	$ 111	$ 708	$ 1	$ 8,240
Balance at December 31, 2010	$ 6,422	$ 1,624	$ 236	$ 218	$ –	$ 8,500
Charge-offs	(3,885)	(2,024)	(117)	(58)	–	(6,084)
Recoveries	500	–	–	22	–	522
Provision for loan losses	1,320	3,463	(8)	526	1	5,302
Balance at September 30, 2011	$ 4,357	$ 3,063	$ 111	$ 708	$ 1	$ 8,240
Loans individually evaluated for impairment	$ 271	$ 1,409	$ 249	$ –	$ –	$ 1,929
Loans collectively evaluated for impairment	7,139	1,532	149	209	23	9,052
Balance at September 30, 2012	$ 7,410	$ 2,941	$ 398	$ 209	$ 23	$ 10,981
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	$ 8,304	$ 13,680	$ 1,041	$ 184	$ –	$ 23,209
Loans collectively evaluated for impairment	1,199,974	245,832	24,141	35,261	3,962	1,509,170
Ending balance at September 30, 2012	$ 1,208,278	$ 259,512	$ 25,182	$ 35,445	$ 3,962	$ 1,532,379
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 September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 2,696	$ –	$ 615	$ 3,311
Production and intermediate-term	–	–	–	–
Agribusiness				
Farm-related business	–	–	–	–
Total	$ 2,696	$ –	$ 615	$ 3,311

	Three months ended September 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	$ 2,696	$ –	$ 600	$ 3,296	$ –	$ –
Production and intermediate-term	–	–	–	–	–	–
Agribusiness						
Farm-related business	–	–	–	–	–	–
Total	$ 2,696	$ –	$ 600	$ 3,296	$ –	$ –

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 4,157	$ 298	$ 936	$ 5,391
Production and intermediate-term	336	–	–	336
Agribusiness				
Farm-related business	–	–	321	321
Total	$ 4,493	$ 298	$ 1,257	$ 6,048

	Nine months ended September 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	$ 4,150	$ 298	$ 922	$ 5,370	$ –	$ –
Production and intermediate-term	334	–	–	334	(24)	–
Agribusiness						
Farm-related business	–	–	321	321	–	–
Total	$ 4,484	$ 298	$ 1,243	$ 6,025	$ (24)	$ –

	Three months ended September 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 118	$ 95	$ –	$ 213
Production and intermediate-term	–	219	–	219
Agribusiness				
Farm-related business	–	25	–	25
Total	$ 118	$ 339	$ –	$ 457

	Three months ended September 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	$ 119	$ 95	$ –	$ 214	$ –	$ –
Production and intermediate-term	–	219	–	219	(6)	–
Agribusiness						
Farm-related business	–	25	–	25	–	–
Total	$ 119	$ 339	$ –	$ 458	$ (6)	$ –

	Nine months ended September 30, 2011			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 727	$ 848	$ –	$ 1,575
Production and intermediate-term	419	989	–	1,408
Agribusiness				
Farm-related business	–	25	–	25
Rural residential real estate	295	–	–	295
Total	$ 1,441	$ 1,862	$ –	$ 3,303

	Nine months ended September 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	$ 728	$ 848	$ –	$ 1,576	$ –	$ –
Production and intermediate-term	406	989	–	1,395	(6)	–
Agribusiness						
Farm-related business	–	25	–	25	–	–
Rural residential real estate	295	–	–	295	–	–
Total	$ 1,429	$ 1,862	$ –	$ 3,291	$ (6)	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may 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 September 30, 2012	Nine months ended September 30, 2012
Defaulted troubled debt restructurings:		
Real estate mortgage	$ 561	$ 585
Production and intermediate-term	–	626
Agribusiness		
Farm-related business	–	–
Total	$ 561	$ 1,211

TDRs outstanding at period end totaled $11,471, of which $2,873 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 nine months ended September 30,	
	2012	2011
Pension	$ 4,779	$ 4,696
401(k)	392	422
Other postretirement benefits	631	809
Total	$ 5,802	$ 5,927

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

	Actual YTD Through 9/30/12	Projected Contributions For Remainder of 2012	Projected Total Contributions 2012
Pension	$ 64	$ 4,842	$ 4,906
Other postretirement benefits	566	169	735
Total	$ 630	$ 5,011	$ 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

Fair value is defined 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.

Accounting 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 6.99 percent of the issued stock of the Bank as of September 30, 2012 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.5 billion. The Bank's earnings were $358 million for the first nine months of 2012. In addition, the Association has an investment of $3,088 related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at September 30, 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 September 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.

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. Level 3 assets 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. 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. 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.

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. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. 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.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters Of Credit
Balance at January 1, 2012	$ 7
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(1)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 6

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

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

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.

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.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Mission Related Investments	$ 4,169	Discounted cash flow	Risk adjusted spread	2.00%–8.25%
Impaired loans and other property owned	$ 38,990	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

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:

	September 30, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 685	$ 685	$ –	$ –	$ 685	
Recurring Assets	$ 685	$ 685	$ –	$ –	$ 685	
Liabilities:						
Standby letters of credit	$ 6	$ –	$ –	$ 6	$ 6	
Recurring Liabilities	$ 6	$ –	$ –	$ 6	$ 6	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 29,925	$ –	$ –	$ 29,925	$ 29,925	$ 4,240
Other property owned	8,458	–	–	9,065	9,065	(2,826)
Nonrecurring Assets	$ 38,383	$ –	$ –	$ 38,990	$ 38,990	$ 1,414
Other Financial Instruments						
Assets:						
Cash	$ 2,594	$ 2,594	$ –	$ –	$ 2,594	
Investment securities, held-to-maturity	4,191	–	–	4,169	4,169	
Loans	1,476,012	–	–	1,484,581	1,484,581	
Accrued interest receivable	16,768	–	16,768	–	16,768	
Other Assets	$ 1,499,565	$ 2,594	$ 16,768	$ 1,488,750	$ 1,508,112	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,309,073	$ –	$ –	$ 1,320,775	$ 1,320,775	
Accrued interest payable	2,775	–	2,775	–	2,775	
Other Liabilities	$ 1,311,848	$ –	$ 2,775	$ 1,320,775	$ 1,323,550	

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

Cumulative balances:

	Employee Benefit Plans
Balance at December 31, 2011	$ (474)
Other comprehensive income	2
Balance at September 30, 2012	$ (472)
Balance at December 31, 2010	$ (308)
Other comprehensive income	(10)
Balance at September 30, 2011	$ (318)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Other Comprehensive Income and Reclassification Amounts:				
Amounts reclassified to net periodic pension costs	$ 15	$ 6	$ 45	$ 17
Net gain (loss) during period	–	–	(43)	(27)
Defined benefit post retirement plans, net	$ 15	$ 6	$ 2	$ (10)

NOTE 7 - REGULATORY ENFORCEMENT MATTERS

On October 11, 2012, the Board entered into a Supervisory Agreement with the Farm Credit Administration (FCA). The Supervisory Agreement requires the Association to take corrective actions and other actions with respect to certain areas of its operations including standards of conduct, acquired property, borrower rights and board policies. Conditions and events that led to the need for this agreement include a violation of FCA Regulation 12 C.F.R. 2140 concerning the sale of other property owned. The requirements of this agreement include, but are not limited to:

- Appointment of a new Standards of Conduct Official
- Appointment of a Board Compliance Committee as it relates to the Supervisory Agreement and ongoing Standards of Conduct issues
- Establishment of a standards of conduct program for directors, employees, and agents of the Association which is to include a review of applicable policies and procedures, training for directors and employees and comprehensive audits
- Policies and procedures around the disposition of other property owned
- Special requirements for properties under contract as of the date of the agreement
- Board approval and certification of future contracts on other properties owned to ensure compliance with FCA Regulations and Association policies and procedures

The Association has begun taking corrective action to correct the weaknesses identified by developing a detailed plan with assignments and due dates. A Compliance Committee was appointed by the Board of Directors on October 11, 2012. This committee is comprised of the Board chairman and vice chairman, Audit Committee chairman, and two other directors. The Board chairman will serve as the chairman of the Compliance Committee. On October 11, 2012, the Board named Wesley D. Sutton as the Association Standards of Conduct Official. This action was approved by the Director, Risk Supervision Division at the FCA.

Both the Board and Senior Management are committed to continuing the administration of the Association in a safe and sound manner, compliant with all FCA Regulations.

The Association remained under written Supervisory Agreement as of the date of this report.

NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined that, except as described in Note 7 above, there are none requiring disclosure through November 8, 2012, which is the date the financial statements were issued.